

# FT Weekend

Asia edition

SATURDAY 15 APRIL / SUNDAY 16 APRIL 2023



THE HTSI  
SPRING DESIGN  
SPECIAL

## Musk to launch AI start-up to rival ChatGPT

- Tech billionaire recruits engineers
- Plan to build large language model

MADHUMITA MURGIA AND TIM BRADSHAW — LONDON  
TERRY KINDER AND RICHARD WATERS — SAN FRANCISCO

Elon Musk is developing plans to launch an artificial intelligence start-up to compete with ChatGPT-maker OpenAI, as the billionaire seeks to join Silicon Valley's race to build generative AI systems.

The Tesla and Twitter chief is assembling a team of AI researchers and engineers, according to people familiar with the tech entrepreneur's plans. He is also in discussions with a number of investors in SpaceX and Tesla about putting money into his new venture, according to a person with direct knowledge of the talks. "A bunch of people are investing in it... it's real and they are excited about it," the person said.

For the new project, Musk has secured thousands of high-powered GPU processors from Nvidia, the person said. GPUs are high-end chips required for Musk's aim to build a large language model — AI systems capable of ingesting enormous amounts of content and producing humanlike writing or realistic imagery, similar to the technology that powers ChatGPT.

The speed with which Musk is moving will raise eyebrows in some corners of the AI community after he led a letter,

co-signed by thousands of other tech figures, calling for a pause on development of GPT-style models over safety fears.

Musk is recruiting engineers from top AI labs including DeepMind, according to those with knowledge of his plans, who said he began to explore the idea of a rival company this year in response to the rapid progress of OpenAI. He has so far brought on board Igor Babuschkin, a former DeepMind employee, and roughly half a dozen other engineers.

The new company would allow Musk to take on OpenAI, the Microsoft-backed group that he co-founded in 2015. He left the board three years later amid clashes with its management, including over attitudes to AI safety, according to two people who were involved in OpenAI at the time. Shortly afterwards, the organisation morphed into a for-profit start-up and raised a \$1bn investment from Microsoft.

People familiar with Musk's thinking say that his new AI venture is separate from his other companies, although it could use Twitter content as data to train its language model and tap Tesla for computing resources.

Musk and OpenAI did not immediately respond to requests for comment. **OpenAI hires crack squad** page 12  
**The race to Grok-like AI** Life & Arts

## Jupiter bound Europe's ambitious eight-year space mission takes off



Europe's €1.6bn Juice — Jupiter icy moons explorer — spacecraft launches from French Guiana yesterday on a voyage to seek signs of life and liquid oceans. *Report, page 4* Jody Amet/ANP via Getty Images

## Hank Paulson: 'It's pretty likely we'll have a recession'

LUNCH WITH THE FT



## The nerdification of everything

Stephen Bush

LIFE & ARTS



## London stalling

## Stalemate in luxury property

HOUSE & HOME



## All aboard the night train

## The sleeper is back on track

LIFE & ARTS



## Elephants threatened by surge in avocado farms

Human-animal conflict > PAGE 4

Australia	A\$20,000c	GS17
Brazil	R\$68.00	
China	RMB9.80	
Hong Kong	HK\$45	
India	Rs200	
Indonesia	Rp4,800	
Japan	¥150	3CT
Korea	₩1,200	
Malaysia	RM1.20	
Pakistan	Rupee 450	
Philippines	₱100	
Singapore	S\$1.00	GS17
Taiwan	NT\$190	
Thailand	Baht60	
Vietnam	₫2,000	

## Subscribe in print and online

www.ft.com/AsiaSubs  
Tel: (852) 3382 3388  
Fax: (852) 2905 5590  
email: subsasia@ft.com

© THE FINANCIAL TIMES LTD 2023  
No. 41,298\*

Printed in London, Liverpool, Glasgow, Dublin, Frankfurt, Milan, Madrid, New York, Chicago, San Francisco, Tokyo, Hong Kong, Singapore, Seoul, Dubai



## JPMorgan leads pack as big US lenders benefit from regional bank turmoil

JOSHUA FRANKLIN AND STEPHEN GANDEL — NEW YORK

JPMorgan Chase and other large US banks have reported bumper first-quarter profits as they raked in billions of dollars in deposits from customers fleeing smaller lenders following Silicon Valley Bank's collapse last month.

The upbeat earnings from JPMorgan, Citigroup and Wells Fargo highlight how bigger US banks have benefited at a time of broader fears over the stability of regional banks after the failure of SVB and Signature Bank.

The higher profits also underscore how banks are making hay after a year of interest rate rises from the US Federal Reserve, which lenders have used to bolster earnings rather than significantly increasing rates for depositors.

JPMorgan led the pack, with profits in

the first three months of this year up more than 50 per cent on the back of higher earnings from lending, known as net interest income. The bank also lifted its outlook for net interest income for the rest of the year by almost 10 per cent to around \$81bn.

The largest US bank by assets added \$37bn in new deposits during the quarter, bringing total deposits to \$2.58tn and defying expectations of a decline.

Wells Fargo analyst Mike Mayo said the results showed "no evidence of a banking crisis... it seems that JPM has been a part in the storm".

Citigroup also said it had seen roughly \$30bn of deposit inflows in March, helping it report a modest decline in overall deposits of 2.5 per cent to \$1.33tn for the quarter, slightly beating expectations.

"We did see a pick-up from March 7 to the end of the quarter," said Citigroup

financial officer Mark Mason. "It was associated with the sector turmoil."

Citi reported higher profits than expected on the back of strong consumer spending and corporate activity.

Wells reported higher than expected first-quarter earnings too but warned of potential losses in commercial real estate lending. Deposits fell 2 per cent quarter on quarter to \$1.56tn.

"We did see some moderate inflows from the few specific banks that have been highlighted in the press but those inflows have abated," said chief executive Charles Scharf.

Despite the upbeat earnings, the large banks struck a cautious tone for the year ahead. JPMorgan chief executive Jamie Dimon told analysts that "the short-term read is higher recessionary risk" and that "people need to be prepared for the potential of higher rates for longer".

### World Markets

STOCK MARKETS	CURRENCIES				GOVERNMENT BONDS			
	Apr 14	Prev	%Chg	Yield (%)	Apr 14	Prev	%Chg	
S&P 500	4129.80	4146.22	-0.40	\$/£	1.101	1.105	-0.36	
Nasdaq Composite	12082.82	12186.27	-0.85	\$/€	1.244	1.251	-0.56	
Dow Jones Ind	33943.77	34029.09	-0.25	\$/¥	0.865	0.862	0.35	
FTSE100	1847.43	1837.61	0.53	\$/HK\$	133.480	132.415	0.78	
Euro Stoxx 50	4385.29	4383.24	0.05	\$/INR	166.076	165.656	0.25	
Hang Seng	1971.91	1943.39	1.39	\$/R\$	0.984	0.982	0.20	
FTSE All-Share	4278.54	4259.89	0.44	\$/C\$	1.112	1.112	0.00	
CAC 40	7519.81	7480.83	0.52	\$/JPY	160.000	160.000	0.00	
Nikkei 225	15807.50	15724.48	0.53	\$/KRW	30710.80	30405.90	-0.94	
Hong Kong	29483.47	29156.97	1.26	\$/GBP	2937.88	2914.22	0.77	
Hang Seng	29438.81	29344.48	0.46	\$/AUD	1.520	1.520	0.00	
MSCI World	31029.20	31164.48	-0.43	\$/NZD	1.620	1.620	0.00	
MSCI EM	997.03	993.58	0.35	\$/SGD	1.350	1.350	0.00	
MSCI ACWI	855.04	847.83	0.85	\$/HKD	82.67	82.16	0.62	
FT Wilshire 2500	3384.84	3285.79	2.99	\$/CHF	86.46	86.59	-0.15	
FT Wilshire 5000	41356.58	41298.88	0.14	\$/SEK	2048.45	2009.20	2.00	

When it comes to maximising potential,

perspective is everything

With our expertise in investing and wealth planning, we can support your purpose now and for the future.

Take the next step, speak to us today, privatebanking.hsbc.com

HSBC UK Global Private Banking

HSBC Private Banking is subject to financial and other applicable controls. HSBC UK, Paris, J.K. Registered Office: 1 Century Square, Birmingham, B1 1HQ, United Kingdom, ©HSBC Group 2023, AC 81812



INTERNATIONAL



WORLD WEEK IN REVIEW

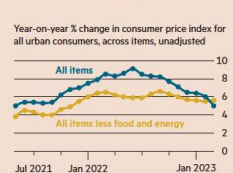
IMF fears inflation and high rates will cause economic 'hard landing'

The IMF has warned of a "hard landing" for the global economy if steep inflation keeps interest rates higher for longer and amplifies financial risks. The fund stressed that signs of resilience, alongside lower global energy and food prices, were masking a darker reality as it published its latest World Economic Outlook. Pierre-Olivier Gourinchas, the IMF's chief economist, said: "Below the surface... turbulence is building, and the situation is quite friskier." He warned that inflation was "much stickier than anticipated even a few months ago", adding: "More worrisome is that the sharp [monetary] policy tightening of the past 12 months is starting to have serious side effects for the financial sector."

China export rebound fuelled by EV sales and trade with Russia

The export engine at the heart of the Chinese economy has roared back to life, defying expectations and bolstering hopes that Beijing will achieve its growth target this year. Despite weak global growth, exports from the world's second-biggest economy surged nearly 15 per cent in March, fuelled by sales of electric vehicles and their components as well as a swell in trade with Russia. The expansion, which surprised economists, came as Beijing hopes to achieve a gross domestic product growth target of 5 per cent this year. The target is its lowest for more than three decades, after its economy expanded only 5 per cent last year under President Xi Jinping's zero-zero control policy.

Fed remains under pressure to lift rates despite easing of price rises



US inflation eased last month to its lowest level in nearly two years but an uptick in core prices could keep pressure on the Federal Reserve for another interest rate increase in May. The consumer price index for March rose by 5 per cent year on year, according to data published by the Bureau of Labor Statistics.

India's financial crimes agency probes BBC after Modi criticism

Indian authorities have launched an investigation into the BBC over alleged financial irregularities in a deepening clampdown on the British broadcaster following its airing of a documentary critical of Prime Minister Narendra Modi. Indian media reported that the Enforcement Directorate, the country's financial crimes agency, was investigating alleged violations of foreign exchange rules by the BBC, following a three-day search of its New Delhi and Mumbai offices in February. "We will continue to co-operate fully with the Indian authorities to ensure that we comply with all our obligations," the BBC said.

Top secret papers

US Air Guardsman charged over leaks

Arrest follows inquiry into sharing of hundreds of sensitive documents

FELICIA SCHWARTZ — WASHINGTON

A 21-year-old Air Guardsman suspected of leaking highly classified US intelligence documents was yesterday charged with illegally sharing top-secret national defence information. According to court documents, Jack Teixeira has been charged with unauthorized retention and transmission of national defence information and unauthorized removal and retention of classified documents or material. He potentially faces a long prison sentence, with each of the charges carrying terms of up to 10 years. Teixeira's appearance comes after a

probe into the leak of more than 100 documents on social media, which started on messaging platform Discord. Some were later published on Telegram and Twitter. They largely focus on the war in Ukraine, but also include information intercepted by the US from allies such as South Korea and Israel. Court filings from the FBI shed new light on events leading up to his arrest on Thursday by FBI agents at North Dighton, Massachusetts, where he was believed to be living with his mother. According to a sworn statement from an FBI agent investigating the leak, agents interviewed a user of a social media platform — believed to be Discord — who later posted classified information supplied by Teixeira on the internet. The user said Teixeira began posting classified information on the platform in December 2022 on a server

meant to discuss geopolitical affairs and current and historical wars. The filing said Teixeira initially posted the government information as paragraphs of text but began providing photos of documents in January 2023. He told the fellow Discord user that he had begun taking the documents home and photographing them out of concern that he would be discovered making transmissions of them in the workplace, according to the court filing. On April 6 — around the time that the leaks were first made public — Teixeira searched for the word "leak" on classified systems, which the FBI believed meant he was looking for the intelligence community's assessment of the leaker's identity, according to the filing. The platform identified in the documents provided records about Teixeira on April 12. His account information

included his name and billing address with a residence in North Dighton, Massachusetts, that was listed as his primary residence on his employment paperwork. The embarrassing saga has raised new concerns about the security of US government secrets. Teixeira was a junior enlisted service member who worked on making sure the air force's communications networks operated properly. President Joe Biden yesterday commended the swift actions taken by law enforcement to investigate the leaks and said he directed the military and intelligence community to limit the distribution of sensitive information. The hundreds of documents Teixeira is accused of accessing and leaking on the web did not appear to have any relevance to his job function. See Opinion & Person in the News

National security. High-level probe

Chat platform thrust into spotlight

Lightly moderated Discord attracts far-right users as well as gamers and crypto fans

CRISTINA CRIDDLE, HANNAH MURPHY AND MEHUL SRIVASTAVA

Discussion boards for video-gaming enthusiasts and music fans seem an unlikely place for the sharing of official government secrets. But this week, a Pentagon probe into a trove of more than 100 highly classified leaked documents was traced back to Discord, an emerging chat platform popular among gamers and cryptocurrency investors and known for its light-touch approach to moderating content. According to research by open-source intelligence agency Bellingcat, the documents were first posted early this year on a since-deleted private Discord channel called Thug Shaker Central, a reference to a racist meme common in white supremacist circles. Bellingcat said the channel, made up of around 20 users who discussed gaming and music, had "staunchly conservative stance on several issues" and shared racial slurs and memes.

The files later circulated on several niche Discord channels — including one about the game, *Minecraft* — before spreading to online forums (Chatter, Telegram and Twitter until the media reported on their presence. "We are aware that law enforcement officials have arrested the individual accused of illegally posting classified material on our platform," Discord said. "We have co-operated with officials and remain committed to doing so as this investigation continues." Founded in 2015 by video game developer Jason Citron, it has grown to have 150m users worldwide. One of its biggest appeals is the ability to create virtual "servers" — similar to chat rooms — often based on a particular interest. That has attracted close-knit groups of users, from hobbyists to extremists. Through the pandemic, Discord set its sights on wooing a more mainstream audience than just gamers, establishing itself as a mainstay for teenagers, who



use the platform to connect with friends using it more for instant messaging and calls, similar to MSN messenger. The platform also saw an influx of users after far-right platform Parler was temporarily banned by app stores, according to Adam Levin, founder of Cyberout. Monthly active users rose 205 per cent in the first quarter of 2023 over the same quarter of 2020, according to data from analysts Sensor Tower. Discord's popularity among young American men with an interest in warfare, especially military-themed video games, has made it a platform of choice for young soldiers on military bases, said a retired US military official. Russian, Iranian and Israeli operatives are believed to have tried to use gaming chat rooms, on Discord and elsewhere, to recruit disaffected young soldiers, the official said. As Discord's popularity has exploded, it has also attracted — and rebuffed — a series of potential suitors, including a \$12bn takeover bid from Microsoft in 2021 and reported interest from Twit-

ter, Amazon and Epic Games. The company was valued at \$15bn in 2021. But Discord has also received criticism that its platform is an under-moderated wild west, with its all-night gaming culture creating an environment ripe for the sharing of harmful content. Discord said that 15 per cent of its more than 900 employees worked on the platform's safety. The company uses machine learning to automatically flag content that breaches its rules, alongside user reports and relying on moderators of its individual servers. "While Discord places a premium on the privacy of our users, we believe that our platform best serves the needs of all when we collectively engage in responsible online behaviour," it said. Discord added that its terms of service prohibited using the platform for illegal or criminal purposes, including the sharing of documents "that may be verifiably classified". Hosts of servers largely self-moderate the groups, and set guidelines for what is permitted to be discussed and shared in

them. Game chat rooms have become places for those trying to avoid online surveillance because of the volume of cyber intelligence group CyberIntel. Researchers have found that Isis has posed as gamers and attempted to recruit young people through first-person shooter games such as *Call of Duty* and on social media platforms. Discord has also become an alternative place to buy, sell and share stolen data and hacking tools, according to cyber intelligence group CyberIntel, which ranked Discord as the third most likely place for cybercriminals to operate, behind Telegram and the dark web. Leaks have become a crucial part of information warfare between Russia and the US, with many social media platforms drawing up their own policies around how to handle the deliberate spread of classified documents. "The underground has now moved online; it's no longer people talking about meeting in a dark basement," Levin said. EU legislation page 3

Advertisement for Financial Times featuring a subscription offer: 'MAKE A WISE INVESTMENT. Subscribe today at ft.com/subscribe today'.

Financial Times contact information and distribution details. Includes address in Central, Hong Kong, and various regional offices like Japan, South Korea, and Australia.

Ambassadors' letter

G7 chides Swiss on sanctions evasion by Russian oligarchs

SAM JONES — ZURICH

The G7 has privately rebuked Switzerland for not doing enough to combat Russian oligarchs evading sanctions. A letter sent to the Swiss government, signed by G7 ambassadors in Bern on behalf of the group, as well as the EU's ambassador, said that Swiss privacy laws and other "loopholes" were being exploited by Russians to hide billions of francs in offshore assets. Switzerland, which is officially neutral, has publicly moved to lockstep with the EU in enacting economic sanctions against Russia following Moscow's full-scale invasion of Ukraine. According to the Swiss state secretary for economic affairs (Seco), SP752bn (\$84bn) of Russian assets have been frozen. But G7 ambassadors cast doubt on that figure. "Independent sources estimate the total held in Switzerland could be significantly higher," they wrote. The letter, dated April 5, seen by the Financial Times and addressed to the governing Federal Council, thanked

Switzerland for its "laudable and significant" efforts to stop the country becoming a "safe haven" for Russian money. But it said more work was urgently needed to ensure compliance with sanctions. "Concern has emerged about the possibility that Swiss privacy provisions... could be used to cover the tracks of financial shelters. We also have concerns that law enforcement officials are blocked from investigating illicit financial structures... because of privacy protections." It added that Swiss officials were unable to freeze assets for those protected as dual nationals, legal residents, those with legal ties to Swiss entities or those holding indirect beneficial ownership. "We share a concern that these loopholes to legal action put Switzerland at reputational risk," it said. The contents of the letter were first reported by Switzerland's Handelszeitung newspaper. Seco said the G7 ambassadors' claims were "baseless" and stressed that Bern had been "swift to align itself" with western sanctions.

Opposition leader

Friends fear jailed Putin critic Navalny is being poisoned

POLINA IVANOVA — LONDON

Jailed Russian opposition leader Alexei Navalny is severely ill, with his condition worsening rapidly, a member of his team has said, while also raising the possibility that the politician may be being poisoned. Navalny has been suffering from stomach pains and has lost more than 8kg of weight in just over two weeks, Ruslan Shavdinnov, a member of his Anti-Corruption Foundation, said in a phone call yesterday. An ambulance was called to the prison for Navalny last week, Shavdinnov said, but no medicines were prescribed. "He and his lawyers have repeatedly demanded access to doctors, a medical examination, a normal examination. But the prison authorities refuse," he said. Navalny, 46, a fierce critic of Russian president Vladimir Putin, is being held at a maximum-security penal colony in Makhkhor, east of Moscow. His lawyers and supporters are particularly con-

cerned, Shavdinnov said, because Navalny's health was already weakened by the assassination attempt against him in 2020 using the nerve agent novichok. Navalny recovered from that attack in Germany before returning to Russia in January the following year. He was arrested on his arrival and has since received multiple sentences, adding up to more than 11 years in jail. "Russian prison is already a place where people's health deteriorates, while Alexei has recently suffered a failed assassination attempt," Shavdinnov said. "Now he is also constantly being placed in an isolator, a room sized 2.5 metres by three metres... without being given access to doctors. This is all very concerning." "His lawyers suggest that a poisoning may have taken place," Shavdinnov added. Speaking with Reuters on Thursday, Navalny press secretary Kira Yarmysh said that the team "couldn't rule out" the idea of incremental poisoning. She said the opposition leader was being denied food parcels.



INTERNATIONAL

# Republicans risk backlash from voters as party steps up abortion restrictions

### Increasingly draconian curbs on women's right to choose prove unpopular with wider public

JAMES POLITI AND COURTNEY WEAVER  
WASHINGTON

Republicans in the US risk painting their party into a corner over abortion as conservative states plough ahead with increasingly draconian restrictions that are proving deeply unpopular with voters.

By overturning Roe vs Wade last year, the Supreme Court left it up to states to decide how they wanted to regulate abortion. That has touched off a flurry of high-profile moves to curb the procedure, the latest of which has come from Florida, where the state's House of Representatives voted on Thursday to ban abortions past six weeks of pregnancy.

Ron DeSantis, Florida's governor and likely Republican presidential candidate, quickly signed it into law, representing a significant escalation in states' war on abortion — Florida is one of the most populous in the country and a medical hub for much of the south-east.

For anti-abortion activists, it has been the fulfilment of a long-sought goal that Republican candidates have put at the centre of their campaigns for years. Some Republicans have also leveraged their opposition to abortion rights to win intra-party primary contests.

But now party donors and strategists are growing fearful that these measures could backfire in general election contests against Democrats.

"It's an issue where Republicans have a lot of weaknesses and they haven't done anything over the last few months to address those weaknesses," said Kyle Kondk, of the University of Virginia's Center for Politics.

Since Roe was overturned, liberals and moderates in Kansas, Michigan and Kentucky have landed defeats to opponents of abortion at the ballot box. Last week in Wisconsin, a Democrat-backed candidate for the state Supreme Court beat her conservative opponent by a double-digit margin. The liberal judge, Janet Protasiewicz, had made support for abortion rights a central part of her campaign, in an election that was widely seen as a bellwether for voter sentiment on the issue.

David Tamasi, a Republican fundraiser and managing director at Chartwell Strategy Group, a Washington consultancy, said Republicans had "terrible messaging on it from the beginning." "No one likes being told by someone else what to do with their body, particularly a woman by a man — that's the underlying challenge," he said.

The onslaught against abortion rights has come not just from state lawmakers. Last week a federal judge's decision, who was appointed to the bench by former president Donald Trump, overturned the Food and Drug Administration's two-decade-old approval of the abortion drug mifepristone.

While an appeals court on Wednesday ruled that the pill should remain avail-



able across the US, it still imposed restrictions on how it could be accessed. Democrats have seized on the rulings to criticise courts shaped by conservative judges appointed by Republican presidents.

Chuck Schumer, the Senate majority leader, criticised the appeals court that ruled on the abortion pill as being dominated by extremists "putting their own anti-choice opinions before the medical expertise of providers and the FDA and the interests of patients."

Vice-president Kamala Harris warned: "If this decision stands, no medication — from chemotherapy drugs, to asthma medicine, to blood pressure pills, to insulin — would be safe from attacks."

Republicans have broached the subject awkwardly, if at all. "I think that this kind of thing is going to make a big difference, just optically, in 2024," said one veteran Republican fundraiser in Texas. On top of the adverse public impact for his party, he worried it could also make conservative states less attractive for business. "You tell me one company — major company — particularly in the north-east that, when the husband comes home to Greenwich and says, 'We're moving our headquarters to Houston,' the wife is going to say, 'OK, let's do it,'" he said.

Some Republican presidential hopefuls are also finding it difficult to formulate their approach as they aim to appeal to party hardliners in the primary while avoiding extremist positions that could turn off voters in the general election.

Tim Scott, the senator from South Carolina who is exploring a White House run next year, was asked on Wednesday in a CBS interview if he would support a national abortion ban at 15 weeks of pregnancy, as proposed by fellow Republican senator Lindsey Graham. He dodged the question, saying simply said he was "100 per cent pro-life".

By Thursday, speaking to media in New Hampshire, Scott said he would back a 20-week ban nationally — a far cry from the absolute or near-absolute curbs being advanced in many Republican-led states.

He also sought to depict Democrats as extremist on the other side. "The big problem that we see today is that our Democrats want to make this a federal issue of having abortions into the third trimester," Scott said. "That is something that puts us in the company of China and North Korea." Nancy Mace, a member of Congress from South Carolina, has been one of the few Republicans to publicly criticise her party's stance on abortion.

"This is an issue that Republicans have been largely on the wrong side of," Mace told CNN last weekend.

"We have, over the last nine months, not shown compassion towards women, and this is one of those issues that I've tried to lead on as someone who's 'pro-life' and just have some common sense."

Some Republicans point to the fact that some state governors, such as Brian Kemp in Georgia, Mike DeWine in Ohio, and even DeSantis in Florida, cruised to re-election last year despite their support for tighter abortion restrictions.

But in other states, such as Michigan, and in congressional races across the country, Democrats were energised in opposition to the overturning of abortion rights in the 2022 midterm elections, helping them outperform expectations. The effect was particularly notable in a number of swing suburban areas that could be pivotal in 2024.

"Voters may be discouraged by the loss of their rights but they are not staying home," said Christina Reynolds, vice-president for communications at Emily's List, an abortion rights group in Washington.

"We know that abortion had an impact on voters, and what we've seen since 2022 is that Republicans have not learned that lesson."

## Monetary policy Fed governor backs interest rate rise next month despite uncertainty

COLBY SMITH — WASHINGTON

One of the most influential US rate-setters has signalled his support for another rise in borrowing costs at the Federal Reserve's next policy meeting in May, despite uncertainty over the fallout from the recent banking stress.

Christopher Waller, a Fed governor, said in prepared remarks yesterday that the turmoil sparked by the failure of several mid-sized US lenders had not led to US borrowing conditions "significantly" tightening.

With inflation at 5 per cent still "far above" the Fed's 2 per cent target and the labour market remaining "strong and quite tight", monetary policy needed "to be tightened further", he said. "How much further will depend on incoming data on inflation, the real economy, and the extent of tightening credit conditions."

The comments came amid a debate about the US central bank's next steps. Rate-setters are split on whether further policy action is warranted to push inflation back down to the 2 per cent target, or if the recent banking turmoil now means the central bank may not have to squeeze the economy as much.

Policy makers this week appear to have coalesced around the need for

another rate rise at the Fed's next gathering in early May. Minutes published this week of the Fed's most recent policy meeting — at which it ploughed ahead with a quarter-point rate rise despite having to step in roughly two weeks before to bolster the banking system after multiple lenders failed — suggested officials expected there to be some impact on economic activity, hiring and inflation. However, they concluded that the March meeting that the magnitude of that impact was highly uncertain.

The Fed has raised rates aggressively over the past year to counter a surge in inflation to multi-decade highs. Price pressures have, however, fallen back in recent months.

Several officials even considered forging a rate rise together, the account of the meeting showed. Fed staff also predicted a "mild recession" starting later this year before the economy recovered over the next two years. Most officials in March projected they would make one more quarter-point rise, which would push the federal funds rate from 4.75 to 5 per cent to a peak range of 5 to 5.25 per cent. Rates would stay at that level until the year's end.

## Chatbots MEPs focus on copyright in finalising AI legislation

JAVIER ESPINOZA AND IAN JOHNSTON  
BRUSSELS

The European parliament is preparing tough new measures over the use of artificial intelligence, including forcing chatbot makers to reveal if they use copyrighted material, as the EU edges towards enacting the world's most restrictive regime on the development of AI.

MEPs in Brussels are close to agreeing a set of proposals to form part of Europe's Artificial Intelligence Act, a sweeping set of regulations on the use of AI, according to people familiar with the process.

Among the measures likely to be proposed by parliamentarians is for developers of products such as OpenAI's ChatGPT to declare if copyrighted material is being used to train their AI models, a measure designed to allow content creators to demand payment.

MEPs also want responsibility for misuse of AI programmes to lie with developers such as OpenAI, rather than smaller businesses using it. One contentious proposal from MEPs is a ban on the use of facial recognition in public spaces under any circumstances. EU member states, under pressure from their local police forces, are expected to push back against a total ban on biometrics, said people with direct knowledge of the negotiations.

Agreement between MEPs, who have been fighting over measures to police artificial intelligence for close to two

## Ireland. Historic visit

# Crowds turn out for Biden 'homecoming'

US president connects with his roots and the people on emotional 'tour of country'

JUDE WEBBER — DUNDALK

On a divided island, Joe Biden brought a message of unity. But his businesslike visit to Belfast contrasted with a leisurely "homecoming" tour of Ireland, which gave the land of his ancestors the kind of attention that larger countries can only dream of.

In a visit to Northern Ireland lasting just 18 hours, the US president promised that his country would be a "partner for peace" in a region that marked the end of the "Troubles" conflict 25 years ago this week. Biden then spent three days in Ireland, visiting regions his ancestors emigrated from and taking time to connect with people.

At the heart of what binds Ireland and the US, Biden told a rare joint session of Ireland's parliament on Thursday, was a "history defined by our dreams, a present written by our shared responsibility... and a future poised for unlimited shared possibilities."

State broadcaster RTE has provided wall-to-wall coverage as the president paid emotional tributes to what he said were Irish-American values of dignity and respect.

His heart was firmly on his sleeve, and Biden's Ireland — his ancestors left in the mid-1800s — can feel like a sepia photograph seen through syrup.

Philip Breslin, a vet in the town of Ballina in County Mayo in the west of the country where Biden was set to conclude his trip yesterday, said he would turn out to see Biden, even as his "view of Ireland may be rose-tinted".

"But as a person, and his values, he's quite reflective of the Ireland of today," Breslin said.

The president has a special connection to Ballina, where his ancestors made some of the bricks that were used to build St Muredach's cathedral, which he was set to visit yesterday.

Biden swept through the north-eastern County Louth on Wednesday. It was his first chance to press the flesh, flashing smiles, taking selfies — and buying cake. "He was taller [than I expected], younger-looking and had amazing teeth," said Jerome McAteer, owner of

The Food House in Dundalk, where Biden selected lemon meringue pie, chocolate eclairs, rhubarb crumble, bread-and-butter pudding and cream buns to take away, whipping out a €50 note to pay for them himself.

Cheering crowds braved atrocious weather to share in the emotion. "American presidents obviously do this to get the 'green' vote, but Biden's really Irish. He really leans into it," said Mark Hughes, a quiz writer in a hat and scarf in Ireland's national colour.

"Maybe he's not the greatest American president of all time, but he resonates. I feel he really does care because of his connections with this area," Hughes said in Carlingford, near Dundalk, where Biden visited a 12th century castle overlooking a picturesque lough. But Biden's trip is intended to celebrate the island's present and future as much as look back in the past.

In Belfast on Wednesday, he celebrated the 20th anniversary of the Good Friday Agreement that ended three decades of conflict and he hailed the UK and EU's new Brexit deal, the Windsor framework, as key to investment.

In the aptly named Windsor Bar and Restaurant in Dundalk, he praised the "faith in an uncertain future" that his ancestors had as they set sail across the Atlantic. He might hope Northern Ireland, where a Brexit row has paralysed politics for a year, can muster the same.

Biden's trip comes 60 years after John F. Kennedy's visit, when the US was glamorous and modern to the rural Irish. Now, Ireland has first-world problems: a housing crisis; a squeezed health service; and lay-offs in the very tech industry that has helped make it rich. But Jerry Buttimer, an Irish senator, praised Biden for leading the way on marriage equality, part of huge social changes in Ireland.



Crowd pleaser: Joe Biden stops to take selfies in Dundalk. © AP/WIDEWORLD



INTERNATIONAL

France

# Macron pensions law approved by court

### Constitutional council validates most of draft but unions vow to fight on

AKILA QUINIO — LONDON  
LEILA ABBUDU — PARIS

Emmanuel Macron's plan to raise France's retirement age to 64 cleared a final hurdle yesterday after the highest constitutional authority validated most of the draft law, marking a political victory for the president after months of protests at his unpopular reform.

Armed police officers had cordoned off a large security zone outside the constitutional council building at Palais Royal ahead of the highly anticipated verdict, while labour unions and student groups held scattered protests in

Paris, Toulouse, Lyon and elsewhere. France's nine-member constitutional council ruled that most of the proposed law, whose central measure is to raise the minimum retirement age from 62 to 64, was valid under the constitution and enacted legally.

Macron and his embattled prime minister, Elisabeth Borne, will now aim to turn the page on a difficult period to save millions of people turn out on protests and strikes against their plan to shore up the finances of France's costly and complex pension system.

The court rejected six aspects of the law that it said did not belong in a budget bill, including a so-called senior index to measure companies' progress on keeping older people in the workforce.

But the court also rejected arguments

by the opposition that the government had abused parliamentary procedure by adding the reform to a social security budget bill in order to shorten debate, and by overriding lawmakers to pass it without a vote using the so-called 49.3 clause of the constitution.

Although the measures related to the pensions reform... could have been introduced as an ordinary law, the government's choice to embed them in an addendum to the (social security law) is not in itself a breach of any constitutional obligation," said the constitutional council yesterday.

Borne sought to draw a line under the fight and appeared to call for calm, saying there were "no winners nor losers" in light of the ruling.

The law has reached the end of its democratic process' Elisabeth Borne, prime minister

But some opponents of the pensions law have vowed to fight on, including by trying to force a referendum on the matter. The government has already sought to placate labour unions by offering new talks over a separate set of proposals to improve working conditions and pay.

Macron has invited them to a meeting at the Elysée palace on Tuesday. But the group of eight labour unions leading the protests have not backed down, and again called on Macron to withdraw the reform. They called for a

massive turnout to the traditional Labour Day march on May 1 to fight "the unjust pensions reform".

"Our spirit is one of combat and determination," Sophie Binet, head of the hard-left CGT union, told daily newspaper Le Monde yesterday.

Leftwing opposition parties have also been trying another long-shot route to block the pensions law by applying to the constitutional court to be able to collect signatures needed to hold a referendum on raising the retirement age. But their first attempt to do so was rejected yesterday.

Two additional motions have been filed, but no referendum of this type has succeeded since they were created in a constitutional reform in 2008. Additional reporting by Sarah White See FT Big Read

Beijing

# Germany warns China over rising tensions with Taiwan

JOE LEAHY — BEIJING  
GUY CHAZAN — BERLIN

Germany's foreign minister has warned China not to use military force against Taiwan, striking a different tone from French president Emmanuel Macron who has been criticised for saying Europe should distance itself from the issue.

Annalena Baerbock said after a meeting in Beijing with China's foreign minister Qiao Guo yesterday that conflicts must be solved peacefully and that Berlin was "concerned" about Taiwan.

"A military escalation in the Taiwan Strait, which 50 per cent of world trade flows through daily, would be a horror scenario for the whole world," said Baerbock, who is in China on a three-day visit, her first since taking office in late 2021. "Conflicts can only be solved peacefully," she added. "A unilateral, to say nothing of a violent, change of the status quo would be unacceptable to us as Europeans."

Baerbock's tougher stance on Taiwan, which Beijing claims as its own territory

'A military escalation in the Taiwan Strait... would be a horror scenario for the whole world'

and has threatened to take by force, follows controversy over a Beijing visit by Macron, during which he warned that Europe should not get "caught up in crises that are not ours".

Some European politicians criticised the timing of Macron's remarks, which came as tensions between the US and China escalated over Taiwan and at a time when Europe continues to be dependent on American support for Ukraine in the war with Russia.

Baerbock's comments were echoed by the EU's foreign policy chief Josep Borrell, who also sought to convey a tougher message to Taiwan.

The EU's position on Taiwan had not changed, Borrell said in a speech published yesterday. He had planned to deliver the speech in Beijing this week but his trip was cancelled after he caught Covid-19.

The EU remained committed to its "one China policy", which recognises Beijing as the sole legal government of China. But on Taiwan, "any attempt to change the status quo by force would be unacceptable", he said.

Qin acknowledged the rise in tensions around Taiwan, but blamed "separatists of the island's independence movement", who were receiving "help and support from foreign powers". "That is the basic root of the trouble in the Strait [of Taiwan]," he said.

Baerbock also urged China to persuade Russia to end the war in Ukraine, saying Chinese president Xi Jinping's recent trip to Moscow had shown that no other country had how to influence Russia. "The decision as to how it uses this influence directly affects Europe's core interests," she said.

She said that just as China had successfully worked the recent Saudi Arabia and Iran, the west hoped Beijing could play a similar role to end the war in Ukraine, adding that it had a "special responsibility" to do so as a permanent member of the UN Security Council.

## East Africa. Human-animal conflict

# Kenya's elephants threatened by surge in farms

### Increased use of land to grow cash crops for richer countries closes off migration routes

ANDRES SCHIPANI — KIMANA, KENYA

Tokoro, one of east Africa's few remaining Super Tusker elephants, roams open grasslands around Mount Kilimanjaro for more than five decades. That was until last year, when he died after being speared by a farmer seeking to protect his crops.

"This is happening more and more," said ranger Daudi Nimaal, standing over the animal's carcass inside Kenya's Amboseli ecosystem reserve, whose 2,000 elephants include just five of the Super Tuskers famed for their enormous tusks.

The ranger fears other pachyderms will meet the same fate, as increasingly frequent clashes between humans and wildlife in the UNESCO-designated biosphere reserve are exacerbated by the proliferation of new commercial farms growing cash crops such as avocados for the west and China. Beijing opened its doors to Kenyan avocados in August and expects to import 200,000 tonnes of the fruit this year.

Incidents of "crop raiding", where elephants damage or trample cultivated land, more than doubled from 156 in 2020 to 363 last year, according to Big Life, a conservation group.

"It's skyrocketing... because the space is shrinking," Samuel Tokoro, a senior official at Kenya Wildlife Service, said of the human-wildlife conflicts.

Kenya's elephants, a must-see for tourists who contribute 10 per cent of the country's gross domestic product, have traditionally been free to traverse through and between its national parks to find food and water, and roam over the border into neighbouring Tanzania.

But the fenced farms growing cash crops have drastically reduced their ability to travel freely. Tall barriers have been thrown up across their ancient migration routes while farmers have shown a willingness to use lethal force to protect their crops.

Such incidents have caused the deaths of more than 50 Amboseli elephants over the past decade. The problem has been heightened by one of the worst droughts on record, which last year



Fallen beast: ranger Daudi Nimaal stands next to the carcass of Super Tusker elephant Tokoro, at the Kimana Sanctuary in Kenya (Reuters/Janet Elliott)

killed more than 200 elephants in Kenya alone. Benson Leyian, Big Life chief executive, said the animals were simply following traditional routes, but the new farms blocked "critical migratory corridors that are key to elephants moving between Amboseli" and nearby Chyulu and Tavonani national parks.

His group has calculated that elephants use one particular route close to the new commercial farms almost 5,000 times last year. Other wildlife, including leopard and giraffe, crossed almost 18,200 times.

Pauk Kahumbu, chief executive of conservation group WildlifeDirect, said: "Nobody wants to wonder if they're contributing to the deaths of elephants — their favourite animal — every time they bite into an avocado from Kenya."

The problem stems partly from a state-led move to split up 1.35m acres in Amboseli, used by generations of

nomadic Maasai, into private plots. After the communal land was divided up, some opted to sell them on to commercial farmers.

In one instance, a company called Kilavo Fresh was awarded a licence for a 180-acre avocado farm on land bought from the Maasai. The licence was later revoked after protests, but the farm near the town of Kimana remains fenced off pending appeals.

"We cannot celebrate yet because we want them to be completely defeated and the whole fence to be removed," said Margaret Njirese, a local Maasai leader. Kilavo Fresh declined to comment as the "matter is still in court".

The battle over commercial farming is a glimpse into the wider land use problems in east Africa. Jackson Mwato, head of the Amboseli Ecosystem Trust, an umbrella organisation, said the "mushrooming of farming in the middle

'We cannot celebrate yet because we want them to be completely defeated and the whole fence to be removed'

of conservation areas or in wildlife corridors" was caused by the "big problem of human population growth" and a desire to grow food and build homes where land planning was weak.

About 8 per cent of Kenya's land mass is protected, including 25 national parks and 28 national reserves. Yet WildlifeDirect's Kahumbu said even this was not enough for the animals to live freely.

"The destruction of wildlife buffer zones and corridors for industrial farming is at a tipping point. We need to reverse the damage, protect more land, secure our protected areas better and open up more corridors between national parks," she said. Kenya has already lost about 70 per cent of its wildlife over three decades, according to the Kenya Wildlife Conservancies Association.

Silvia Museyja, Kenya's government's principal secretary for wildlife, said clearer regulation and more co-ordination was needed, but that "at some point everybody has some right to exercise their tenure land rights".

She added: "But if we do that without larger-scale spatial planning, then we continuously close in the wildlife corridors and forget the fact that animals continuously have to move." The elephants then "find alternatives that come at a cost", including destroying property and crops.

The government said in February that K\$5.7bn (\$42m) would be paid to those, mainly farmers, affected by human-wildlife conflict as it rolled out a new insurance scheme.

Conservationists have also been able to prevent clashes by erecting about 100km of electric fences to stop the elephants from entering the Maasai lands. Still, the plight of the elephants has led some to reconsider.

Michael Kairu set up his Ngong Veg farming business in Amboseli five years ago only to find out later about the threat it posed to wildlife. His 500-acre farm is in what was once an elephant breeding ground, according to locals.

"Government agencies and communities should make it clear where you can farm," said Kairu, whose customers include leading UK supermarkets. "We need to protect wildlife habitats and we also need agriculture."

His plan is to one day give up the land to conservation, allowing the animals to roam. "I don't want to be in the wrong place," he said. "I care about elephants."

Search for life

# Spacecraft begins 8-year trip to Jupiter

LEEKO OSO ALABI AND CLIVE COOKSON LONDON

An Ariane-5 rocket has launched Europe's €1.6bn Juice spacecraft on an eight-year voyage to Jupiter and its icy moons, which it will investigate for

signs that liquid oceans beneath their frozen surfaces might support life.

The successful launch was greeted with jubilation by scientists, astronauts and officials gathered in the control room at the European Spaceport in French Guiana yesterday. Teams led by the European Space Agency had worked for months testing for flaws and potential problems. The launch was postponed from Thursday because of bad weather.

Nearly an hour after lift-off the first signals were received from the spacecraft. They were captured by antennas at the New Norcia ground station in Western Australia. A second key milestone was reached when Juice's solar rays were deployed, enabling the satellite to produce its own electricity.

Juice — short for Jupiter Icy Moons Explorer — is the most complex planetary space mission ever attempted. Although Juice will provide a wealth of information about the atmosphere and magnetic environment of Jupiter, most public attention will focus on what it

discovers about what lies beneath the moons' icy surfaces.

Michele Dougherty, head of physics at Imperial College London, helped to develop a magnetometer that will be used to measure electrical currents in the underground oceans of the moons. "We're looking for the ingredients for life — liquid water, a heat source and organic material," said Dougherty. "Once we confirm that is there, we'll be able to essentially say the moons of Jupiter are a place where life could form."

The six-tonne spacecraft's 6.8m-kilometre route involves four "slingshot" gravity assists around Earth and Venus — the last one in 2029 — before reaching Jupiter, the solar system's biggest planet, in 2031.

Juice will then orbit Jupiter, fly past the Europa and Callisto moons and then orbit a third, Ganymede, enabling its 10 scientific instruments to examine the complex physical and chemical environment of the Jovian system. The mission is due to end with Juice crashing into Ganymede in late 2035.

Sovereign debt

# Beijing vows to co-operate on defaults

JOE LEAHY — BEIJING AND KANA INAGAKI — TOKYO

China will co-operate to resolve an impasse over developing countries' sovereign debt restructurings, a senior official said, as Beijing appeared to soften its stance in fraught negotiations over a string of defaults.

China central bank governor Yi Gang on Thursday told G20 finance ministers in Washington that the country was willing to work through the group's so-called Common Framework for sovereign debt restructuring.

"China is willing to work with all parties to implement the Common Framework for debt resolution," Yi said in a statement released by the People's Bank of China. The G20's Common Framework seeks to bring the main bilateral creditors of nations with distressed debt together for negotiations. So far, Chad, Ethiopia and Zambia have signed up.

Sovereign debt distress among developing countries has been a focus of this year's IMF and World Bank meetings in

Washington, as the pandemic and inflation have hit the ability of governments to service foreign borrowings.

China has insisted that multilateral lenders, which include western-led

Yi Gang: 'China is willing to work with all parties to implement the framework for debt resolution'



institutions such as the World Bank and the IMF, should break with norms and participate directly in sovereign debt restructurings to share some of the pain. But advanced countries and others oppose the move, arguing multilateral institutions must retain their "preferred" status as "super-senior" creditors exempt from restructurings.

They argue this privileged status is the basis of multilateral institutions' high ratings and is fundamental to their ability to provide low-cost financing. Western countries have blamed

China's stance for holding up crucial debt restructurings for countries such as Zambia, which is waiting for the next tranche of a \$1.2bn IMF package.

The PBoC's Yi did not provide further details on China's stance in his statement on the Thursday meeting.

But in recent days, US officials have sounded more positive on a breakthrough in the impasse with China, though they have said it remains unclear if Beijing is really willing to join the Common Framework.

Japan is leading efforts with India and France on an initiative to discuss the restructuring of Sri Lanka's debt, amid differences with China's approach. In a new conference following the G20 meeting, Shunichi Suzuki, Japan's finance minister, called on China, Sri Lanka's biggest bilateral lender, to participate in the new platform, but it remained unclear whether Beijing would play along with other creditors. Additional reporting by William Langley in Hong Kong and James Pollitt in Washington See Opinion





**CLASH**  
DE  
*Cartier*





FT BIG READ. FRANCE

The French president might have hoped his trip to China would reinforce his claim to be Europe's strategic thinker and chief diplomat. But instead he is now isolated both at home and abroad.

By Leila Abboud and Ben Hall

The low point in a dire week for President Emmanuel Macron came during a press conference on Wednesday when a reporter confronted him with a jibe from an old adversary, Donald Trump. The former US president, who alternately embraced and clashed with his French counterpart, had taken issue with Macron's state visit to Beijing earlier this month. "Macron, who's a friend of mine, is over with China kissing [Xi's] ass," Trump told Fox News.

Macron, who was on a state visit to the Netherlands, declined to respond. But the fact that he faced the question at all four days after his return to Europe was a sign of how badly he had mangled both the symbolism and the messaging around his carefully planned China trip.

Not only did Macron have little to show from efforts to convince Xi to limit his support for Russia, he created a diplomatic uproar with an interview on the flight home in which he called on Europe to develop its own stance independent of the US to deal with tensions between Beijing and Taiwan.

"The great risk" for Europe is that it "gets caught up in crises that are not ours, which prevents it from building its strategic autonomy," Macron said, warning against becoming "vassals" to the US or China. Politicians and diplomats on both sides of the Atlantic called the remarks tone-deaf at a time when the US is bankrolling Ukraine's defence.

At the press conference in Amsterdam, an exasperated-looking Macron tried to draw a line under the episode by explaining that France is for the status quo on Taiwan, remains a staunch ally of the US and wants Europe to present a united front on China. But he could not resist repeating a line that had enraged many of his European partners: "Being an ally does not mean being a vassal."

For François Heisbourg, a European security analyst, this week encapsulated all that has gone wrong for Macron on foreign policy since the Ukraine war upended the global security order.

Although the French president arguably has the right diagnosis that Europe needs to become a stronger, more independent power, he says, Macron has been an ineffective messenger and displayed a dangerous naïveté, first towards Russia in the run-up to war and now with China.

"It is a romantic way of doing foreign policy," Heisbourg says. "Macron really believes that with his intellect and his charm, he can convince leaders like Vladimir Putin or Xi Jinping to act differently."

Macron remains, like other modern French presidents since General Charles de Gaulle, guided by the idea that France has a special role to play in foreign affairs, and that means defining its own foreign policies apart from the US. He is wedded to the concept of France as a "balancing power" between superpower-aligned blocs.

But in trying to put the theory into practice he has often provoked diplomatic controversies. He infuriated Berlin and the EU's eastern members in 2019 with a freelance initiative to reset relations with Vladimir Putin and Russia. He followed up by declaring Nato "braindead". In the middle of Russia's brutal war against Ukraine, he said Moscow must not be "humiliated" and would need security guarantees.

But his comments this week, appearing to blame the US for the tensions over Taiwan, have caused the widest-ranging furor so far.

In Europe, Macron's remarks eclipsed efforts by Brussels to engineer a more



# Macron at odds with the world

'His big problem is that he thinks about all ideas and concepts and not about tactics, so he says the wrong things at the wrong time'

coherent EU stance on China. On her own visit to China this week, German foreign minister Annalena Baerbock disavowed the French leader's comments and warned China not to use military force on Taiwan.

Governments in eastern Europe were especially irritated by Macron's plea for the EU to become a "third superpower" instead of being "followers", accusing him of failing to learn the lessons of Putin's invasion of Ukraine. Without US aid to Kyiv, Ukrainian resistance would have crumbled.

Polish prime minister Mateusz Morawiecki countered Macron's viewpoint this week, saying the EU needed a "strategic partnership" with the US rather than "concepts formulated by others in Europe, concepts that create more threats, more questions than more unknowns".

With his approval ratings plummeting domestically after months of protests over his unpopular pensions reform, Macron might have hoped his trip to China would strengthen his claim to be Europe's strategic thinker and diplomat in chief. Instead he looks increasingly isolated and out of favour with his European partners.

"He wants to shake up things and wake up people," says Jana Puglierin, head of the Berlin office of the European Council on Foreign Relations and a strong advocate of European strategic autonomy. "But he's frightening people and dividing countries from each other."

It's a far cry from 2017, when Macron celebrated his election in front of the Louvre in Paris to the strains of the EU anthem. He had campaigned on a pro-EU ticket and had defeated the

Euro-sceptic, far-right leader Marine Le Pen. After the populist shocks of the Brexit vote and Trump's election, he carried the hopes of pro-Europeans and aspired to fill a leadership void in Europe created by Angela Merkel as she entered her twilight years as German chancellor.

In a speech at the Sorbonne University later that year, Macron said the EU should strive for "strategic autonomy" — an amorphous concept meaning the union should have its own capacity to act and not be hindered by dependencies on other powers. It was not his original idea, but he gave it propulsion.

The Sorbonne proposals received short shrift in Berlin, but many of them have since taken shape and the EU undeniably carries a greater French imprint since then.

Macron persuaded Merkel to support a pandemic recovery fund backed by common EU borrowing, a watershed moment in integration. The EU has also embraced industrial policy and adopted policies to protect its internal market from unfair competition.

To a degree, the strategic autonomy agenda has also taken root. The EU is taking measures to reduce its supply chain dependencies, such as on chips and electric batteries, and has created instruments, such as a facility to fund military operations, which has been used to support Ukraine.

But autonomy in security and defence, given temporary momentum by the Trump presidency, was always contentious with many EU capitals seeing it as the latest manifestation of France's drive to weaken the Atlantic alliance — a suspicion only magnified by

Macron's "vassal" comment this week. "You cannot build European strategic autonomy explicitly against the United States, although Macron would always say, 'Oh, I'm not doing this, I'm not against the United States. I just want Europe to be independent,'" says Puglierin. "But his rhetoric and the way he puts it and especially in this latest interview, always has this anti-American tone in it."

Macron's foreign policy approach to the US stems from the historic line France has held since de Gaulle — namely to be "a friend and ally, but not aligned," says Hubert Védrine, a former foreign minister and top Elysée Palace official under François Mitterrand. Paris would stand with allies in tough moments but still keep its freedom.

Védrine, an intellectual influence on Macron who still regularly speaks to the president, was once an ardent proponent of the concept, but he admits that it may no longer be realistic. "The idea is still good even today, but France truly can't play this role any more — its economy has weakened too much to make it credible as a power," he said.

Macron's foreign policy woes stem as much from his method as from substance, say former officials and analysts. Strong on concepts, he is weaker at diplomatic bridge-building and sometimes says too much publicly. He relishes debate and eschews short answers to questions, offering instead historical context and complexity, symbolised by his catchphrase *en même temps* (at the same time).

This earned him the label of a "think-tanker in chief" who brilliantly analyses issues, yet cannot deliver results.

Macron, centre, is the target of protests in France, and of scorn in EU capitals for saying Europe should not be 'vassals' for the US and China. FT images: Getty Images/Markus Spiske

'He wants to shake up things and wake up people. But he's frightening people and dividing countries from each other'

"Macron is a narcissist who cannot recognise his errors," says one former French diplomat. "His big problem is that he thinks about all about ideas and concepts and not about tactics, so he says the wrong things at the wrong time."

Can Macron change his ways at home or abroad? Sceptics doubt it.

He has repeatedly promised to govern in a less top-down manner and be more sensitive to the struggles of the working class, such as after the *gilets jaunes* crisis in 2018. On the night of his re-election against Marine Le Pen last year, he vowed to deal divisions and recognised that some voters had backed him to block the far right and not because they agreed with his policies.

Those conciliatory words have proven hollow: he chose to ram through the pensions reform to raise the retirement age to 64, which is opposed by two-thirds of the population, without a parliamentary vote even after months of street protests. His ability to govern has been hampered by his party losing its parliamentary majority, imperilling second-term agendas, such as reaching full employment.

Macron also seems ready to stick to his guns on foreign policy. In a speech in the Netherlands this week that focused largely on economic independence and competitiveness, he said making Europe more "sovereign" was "central to my political project".

But now, isolated both at home and on the world stage, it is unclear where Macron can find the political capital to bring his project to fruition.

*Additional reporting by Sam Fleming in Brussels*

## Obituary Designer who helped put British style on the map

Mary Quant Fashion designer 1930-2023

The thing about British designer Mary Quant, says Edward Sexton, the Savile Row tailor who helped shape the look of the Swinging Sixties in London, is that she was "immediately recognisable. She dressed in a very sexy way, short skirts... She stood out in a crowd."

Quant, who has died aged 93, parlayed her five-pointed Vidal Sassoon chop, self-made tunic dresses and gumball-coloured tights into a global business spanning ready-to-wear clothing and homeware, and a cosmetics line.

Widely credited for popularising the mini skirt in the early 1960s, her then-shockingly short skirts and waistless dresses were a welcome departure from the cinched waists and long, full skirts favoured at the time. The innovative designs helped put British fashion on the map. "She gave young women a new visual language, and the space to be themselves," says Jenny Lister, co-curator of the Victoria and Albert Museum's 2019-2020 Mary Quant exhibition. "She didn't promote herself as a feminist but, the way she lived and worked, it was at the bottom of everything she did."

"Before her designs, there were no real clothes for teenagers," the model Twiggy recalled in a 2019 Vogue essay.

"If you look at girls in the '50s, most of them are dressed like their mothers. She changed all of that."

Mary Quant was born in 1930 in Blackheath, south London to two Welsh schoolteachers who discouraged her from pursuing a fashion career. She enrolled in an illustration course at Goldsmiths, where she met her future husband, Alexander Plunket Greene. In 1955, she, Plunket Greene and their friend, the lawyer Archie McNair, opened a smart basement restaurant — Alexander's, on the King's Road, which fast became a favourite of the burgeoning "Chelsea Set" (Brigitte Bardot and the Beatles also dined here). On the ground floor was a shop they called Bazaar, where Quant's fashion career was born.

Quant set about filling the shop with clothes, first bought wholesale from other designers and then — frustrated because she couldn't find precisely what she wanted — of her own design. She adapted existing patterns and attended evening classes to learn the fundamentals of cutting. Her clothes were made in small batches to help pay for the next rolls of fabric, which meant the shop almost always had something new. Even at the height of Quant's popularity, she

typically only made 100 to 200 copies of a single garment, says Nigel Bamforth, who formerly managed production for her diffusion line, Ginger Group.

"The quality was extremely good," Bamforth recalls, landing, price-wise, between couture and Biba, the lower-priced fashion chain that launched in 1964. "Duchesses would shop in her shop and also people who worked as secretaries," says the V&A's Lister.

But careful marketing by the trio also played a role in the brand's success. Quant's photo was frequently splashed across the papers as the inventor of the mini skirt. So was that of Sixties "it" model Twiggy, who became the unofficial second face of the label. Designs were given playful names — "Legs Downwards" trousers, the "Cad" dress, "7 Us" shorts — with cheeky black-and-white inner labels that mimicked those seen into haute couture garments.

The stores were informal and fun, with loud music, arresting window displays and parties that stretched into the early hours. "She really changed not just how women dressed, but how women shopped," says Dennis Northrup, head of exhibitions at London's Fashion and Textile Museum. "These



Mary Quant shaped the look of Swinging Sixties London

'She gave young women a new visual language, and the space to be themselves'

ideas of boutiques and in-store events and fashion shows in stores, it became an experience. It changed how people consumed fashion."

The business expanded through a 1962 design contract with US department store chain JC Penney and, in 1963, the lower-priced diffusion line Ginger Group. In 1966, Quant was presented with an OBE for fashion, which she accepted wearing a mini dress. In 2015, she was made a dame and earlier this year was appointed to the Companions of Honour by King Charles III.

Associates describe her as charming and exuberant, though painfully shy in public. "She would prefer to hide behind anyone, and for interviews on the radio or television, she sort of died of embarrassment," says Lister.

In 2000, the designer left the company she co-founded and sold her remaining shares to her Japanese licensing partners. Her husband died in 1990, aged 57. She is survived by a son, Orlando. "The thing I love about Quant is that she set out to run a boutique, and not finding things she wanted, she made them," says Northrup. "The whole Quant empire came from that understanding." *Lauren Indvik*



# capital.com

## — Inflation\_nation

10.4% inflation in the UK?  
The pound's going to sink this year.

👍 Recommend   ↩ Reply   ➦ Share

## — In\_GBP\_we\_trust

↩ In reply to **Inflation\_nation**  
No way. Interest-rate hikes and a weakening dollar are the perfect platform for sterling strength.

👍 Recommend   ↩ Reply   ➦ Share

\*Comments are based on a summary of responses under FT articles, but the actual wording is generated by Capital.com.

GBP/USD, 2020-2023



# What's your view?

**You're reading the FT, so you're bound to have one. Did you know that trading CFDs could enable you to take a short-term view on thousands of global markets, without having to own them?**

Act on breaking news and economic events in moments

Ability to hedge an existing portfolio by going short when you suspect a dip

Cap your risk with guaranteed stops, which incur a small fee if triggered

## Capital.com. Turn your views into trades.

Celebration of Investment Awards - Best Platform for 'New Investors'



Most Innovative Tech



GET THE APP



Spread bets and CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. 82% of retail investor accounts lose money when trading spread bets and CFDs with this provider. You should consider whether you understand how spread bets and CFDs work and whether you can afford to take the high risk of losing your money.

Capital Com (UK) Limited ("CCUK") is registered in England and Wales with company registration number 10506220. Authorised and regulated by the Financial Conduct Authority, under register number 793714. Capital.com services are not available for customers from all regions.



# The FT View



FINANCIAL TIMES  
"Without fear and without favour"

## Britain's elusive high-speed rail dream

Despite the delays and spiralling costs, the UK still needs HS2

Countries such as France, Germany or Spain with shiny and extensive high-speed rail networks may look with bemusement across the Channel to the agencies in Britain over building anything similar. The originally solid case for the HS2 line, meant to whisk passengers from London to Manchester and Leeds via Birmingham, has become ever more precarious as the price tag has soared. After being repeatedly delayed and hacked back, the project is in danger of death by a thousand cuts. Cost estimates spiralling from £50bn a decade ago to as much as £100bn have forced the government to look for savings. Much of the Y-shaped line's eastern arm to Leeds was scrapped in late 2021. A new, two-year delay to another section may mean the line does not reach

Manchester until the 2040s. Plans to bring HS2 to Euston in central London may now be completed only in 2041, with trains terminating till then several miles away in the west of the capital. Some MPs suggest what remains of the project – at least beyond Birmingham, to where construction is well under way – should be axed. Despite the costs and delays, that would be a mistake. The focus on speed in marketing HS2 has led to be seen, wrongly, as a vanity project. In capacity terms, it is essential infrastructure. Its origins lay in early-2000s forecasts of rail needs that projected southern sections of the west coast London-Glasgow line would hit maximum capacity by the mid-2020s, and the east coast line to Edinburgh a few years later. Though the pandemic has altered travel patterns, those forecasts are broadly set to be met. Widening existing lines is itself expensive and disruptive. It was decided to build new high-speed routes to spread the load. Since commuter and freight trains

share the existing main lines, shifting inter-city services to dedicated tracks allows much more to run, at much higher speeds, while more local and goods trains can use the old lines. As HS2 will join the west coast line beyond the worst bottlenecks, faster and more frequent services can run through to northern England and Scotland. That makes less carbon-intensive rail travel a more alluring alternative to flying. And shifting freight from roads to rail is crucial to meet net zero targets, but impossible without space on the railways. HS2 should therefore be completed at least to Manchester. While the government wants to tweak the Euston terminus design to save money, any delay in opening it should be kept to a minimum. The north-east arm to Leeds has a less compelling logic but alternatives, such as a leg through Nottingham to York, could make sense. Ministers should remember cost-benefit studies can underestimate the additional activity a well-designed project

The focus on speed in marketing HS2 has led to be seen, wrongly, as a vanity project

will generate. Within eight months of opening last year – though delayed and over-budget – the cross-London Elizabeth Line was carrying 5m passengers a week, 50 per cent more than expected, with little sign it was "cannibalising" Tube journeys. Project managers and the government must continue to look for savings. But these should come through redesign or re-engineering, not lopping off further bits of HS2 and undermining its rationale, or from postponements that reduce immediate outlays but push up the total cost. Lessons must be learnt, too, from the ballooning expenses and interminable planning and political approval processes. Though Britain is much more densely populated, engineers note big rail projects are managed very differently in France, seemingly without compromising quality or safety. The UK still needs HS2, and has no quick Plan B. But the project's handling to date is really no way to run a railway.

### Opinion Money

## Not a penny more: time to abolish the US coin

FT MorningComment



Sam Learner

They pile up in drawers. They're taken or left on a whim at store counters. Vending machines and parking metres won't accept them. And last year, they cost the US Treasury \$100m more to produce than they're worth. Despite all this, the penny – America's copper-plated one-cent coin – persists. For decades, US lawmakers, journalists and penny-jar owners have debated whether the penny's declining value justifies its continued production. All the while, it gets less valuable with each passing year. Inflation has hit it from both sides: production and distribution costs have gone up while the actual utility of the coin goes down. While the volume of cash transactions may be declining, the penny never cost more to produce than it did

concluding that the penny remains popular with a slim majority. In 2006, the group arranged for entertainer Kevin Federline to show up in Times Square wearing an Abraham Lincoln mask and declare that he was, "feeling good about the penny." The main argument put forth by penny defenders is that eliminating the coin will result in businesses rounding up prices, costing Americans more than their purchases – particularly those who are lower-income and more likely to be using cash. Missing from this argument is a convincing explanation as to why prices would go up more frequently than down, if rounding to the nearest nickel. The pre-tax price of many consumer goods end with ".99", suggesting a round-up, but due to another American monetary custom, sales tax is not included in most sticker prices. This means final prices are no more likely to end up being more expensive than less. An academic study of 200,000 convenience stores also concluded that rounding would not negatively affect consumers. Any bill eliminating the penny should look to Canada for guidance, which just celebrated its tenth anniversary of being penniless. Before it was eliminated, the one-cent coin was costing the Canadian government an absurd 1.6 cents to produce and distribute. It remains legal tender and federal rounding guidelines for businesses were issued along with the bill. Some suggest that any savings from eliminating pennies would be offset by an increased use of nickels, which the Treasury produces at an even greater loss. For each round-up involving an extra nickel, there would be another that eliminates a nickel in favour of a dime. Counter-intuitively, rounding all prices to the nearest five cents would involve the same number of nickels as we use today. Penny defenders maintain that public opinion is on their side. But the framing of penny bills sways how people respond. One survey conducted in 2022 by progressive think-tank Data for Progress showed wide bipartisan public support for eliminating the penny once respondents were informed about the high costs of production. Finally, and most emotively, there is the matter of President Lincoln, whose face adorns the one-cent coin. Although he is also represented on the five-dollar bill, Americans are attached to his metallic presence and loathe to abandon such a popular historic figure. In order to appease this group, perhaps a new, copper-plated Lincoln monnaie could be proposed? We can construct it with melted-down pennies. We certainly have enough of them. sam.learner@ft.com

### Letters

## It's no wonder men feel threatened in today's battle of the sexes

In talking about male attitudes to women and sexuality, Gary Barker, president of the campaign group Equimundo, says "the trend is backward" pointing out that young men often voiced more conservative views than older generations ("Boys and the search for a non-toxic masculinity", Spectrum, FT Weekend, April 8).

You don't say. All over the world, women are being educated, taking control of their fertility, having fewer babies and finally claiming their equal rights to succeed and flourish with men – including the right to enjoy casual sex in the way men always have. No wonder the men feel threatened.

It's not men who are concerned with the effect on girls of the constant pressure to succeed on all fronts and still do their hair, nails, make-up and clothes to please men. Fortunately, a lot of them grow past this and realise they're better off spending the money at the gym, which will conveniently enable them to throw across the room any boy who tries to strangle them in bed. As to role models of men who are

strong, brave, kind and comfortable with their emotions, I suggest that your readers watch a few episodes of 1999's *What's Your Emergency?*, whose cast of paramedics any woman could be proud to bring home. Sheila Hayman Associate, Newnham College, Cambridge (proudly all female since 1871) London NW1, UK

### Silicon Valley and the banks – ideas of risk differ

Gillian Tett writes that "risk management culture is antithetical to Silicon Valley culture", and I agree – but not for the same reasons ("What I learnt from three banking crises", The Weekend Essay, Life & Arts, April 8). Risk is dual in nature: it destroys value when an organisation is exposed to it and does nothing to manage it. The banks forget the first aspect and Silicon Valley forgets the second. But the thing about Silicon Valley is that the lean concept, with its "minimum viable product" approach, is an excellent way of managing risk because it tests assumptions as the product or service is developed. Duncan Stephenson Ceres-Risk, Leeds, West Yorkshire, UK

### Lehrer's rapper riposte was the acme of courtesy

Alison Jamieson ("Memories of Little Britain", Letters, April 8) writes of an Italian ice-cream vendor offering customers a taster. It put me in mind of one of Tom Lehrer's most memorable lyrics. In his 1953 paean to an under-appreciated profession "The Old Dope Peddler" Lehrer sings: "He gives the

kids free samples/ because he knows full well/ that today's young innocent faces/ will be tomorrow's clientele."

In 2012, the US rapper 2 Chainz requested permission to sample the song. Lehrer's response: "As sole copyright owner of 'The Old Dope Peddler', I grant you motherfuckers permission to do this. Please give my regards to Mr Chainz, or may I call him 2?" Marc Hudson Stone, Staffordshire, UK

### Forgiveness flourishes in rock-n-roller's hometown

The town where Arthur Rimbaud grew up "eventually forgave him" for calling it "superiorly idiotic among provincial towns" ("House museums #11: Arthur Rimbaud", House & Home, April 8) and now has a museum dedicated to his memory. Another "anti-establishment rebel", Heinrich Heine called Lüneburg, where his parents lived in the 1820s, "the residence of boredom". Yet now their house on the central square, renamed the Heinrich-Heine-Haus, hosts weddings and literary gatherings. Mae Davis, an American songwriter who shared the same hometown as Buddy Holly, wrote a song in tribute to the great rock-n-roller with the line:

"Happiness is Lubbock Texas in my rear-view mirror". Yet now there is a Buddy Holly Center there. Can the financially astute readers of the FT help us understand this paradox? Louis Marwick Emeritus Professor of French University of Nevada, Reno, NV, US Lüneburg, Germany

### Portuguese guns – an early emergence of feminism

Thank you for the travel piece on Lisbon's "Age of Discovery" (Life & Arts, April 1). It could be interesting to let FT readers know that when the Portuguese arrived in Japan, around 1543, the country was embroiled in a civil war, and the Portuguese adventurers were instrumental in ending the conflict by providing guns or matchlocks (the Japanese didn't have them) to the side that ultimately emerged as victors. For about half a century the Portuguese had a monopoly of commerce between Japan and China (and the west), and were only expelled because the Catholic influence started to threaten the almighty power of the Japanese emperor. Rui Ramos-Pinto Coelho Lisbon, Portugal

### Remember animal rights in race for a winning edge

I felt nostalgic reading Oliver Roeder's piece about computer-assisted betting taking over horseracing. I recalled my own excitement as a child going with my father to the Santa Anita racetrack, near Los Angeles ("I used AI to bet on horseracing, Nevada's what happened", Spectrum, Life & Arts, April 1). A synopsis to a memory of the song "Fugue for Tinhorns" – from the musical *Cats* and *Dolls* – was awakened after decades of dormancy. But then I was also reminded of *Luck*, the short-lived HBO TV series set in the worlds of horseracing and gambling. It was cancelled, in part, because of criticisms by the animal rights movement. A thoroughbred is a wonder of nature and man has an insatiable curiosity to try to figure out a "winning edge", as Roeder puts it. Unfortunately, not without imposing suffering on the very creatures we so admire. Big data, machine learning, artificial intelligence, wagering cartels – a fascinating but disturbing outlook we face as our human pursuit of winning overtakes our better instincts of limbic resonance for all living things. Thomas Tomcovi Thousand Oaks, CA, US

## Why economists have been learning to speak human

Recently, the phrase "cost of living crisis" has been everywhere. This week, it even surfaced on stage at the IMF's spring meetings. The context was a talk I gave on what anthropology can offer economists. Kristalina Georgieva, IMF managing director, used the phrase when she noted that social science can help us make sense of economic challenges. To ordinary mortals, that might sound obvious. But some of the economists in the room recoiled. "No one talked about a cost of living crisis" at the IMF a few years ago, one muttered to me afterwards. Instead, he observed, "they just said inflation".

### Notebook

by Gillian Tett



The linguistic shift speaks volumes. In the late 20th century, it was the era of neoliberalism, the IMF acted as if economists were a technocratic, non-political activity. The institution was founded in 1944, after all, "to manage the global regime of exchange rates and international payments", as the Council on Foreign Relations notes. And although the fund evolved in the 1970s to handle balance of payments and debt crises, mostly among middle-income countries, it was infamously dedicated to free-market policy recommendations. For many years, the IMF treated economies like machinery, something to be tweaked and tuned using standard tools such as government spending. When IMF reports discussed price growth, they used the politically neutral term "inflation" and household consumption patterns were presented

via their contribution to gross domestic product. But ever since Christine Lagarde, former French finance minister, took the helm of the IMF in 2011, the fund's language and policy emphasis has been shifting. Georgieva is continuing to focus on issues that rarely used to crop up, such as climate change, women's rights or healthcare. This shift horrifies some observers, who fear mission creep is undermining the fund's core business of making loans. It delights others, such as the Nobel Prize-winning economist Joseph Stiglitz, who has railed against its former neoliberal policies. Perhaps the best way to frame this shift is to borrow a concept coined by Karl Polanyi, the economic historian, about "embeddedness". The IMF meetings now acknowledge markets are not just about abstract numbers and models they are "embedded" in politics and society. And while this has long been recognised by the World Bank in relation to poor countries, this sense of embeddedness of economics is also in advanced economies, too. Last year, to cite just one example, Bank of England governor Andrew Bailey appealed to workers to display "embeddedness" to prevent an inflationary spiral. A few decades ago, when neoliberal, free-market ideas ruled supreme, this might have seemed like government meddling. Not quite so much today, given the past two decades such as "cost of living crisis". For better or worse, politicisation is replacing technocracy in western policy. This could run for a long time.



# Opinion

## Pentagon leak fallout will be felt far beyond the battlefield

Kori Schake

It's really bad. So bad the Pentagon is not only conducting its own investigation, it also immediately called in the Justice Department to investigate. Over 100 pages of highly classified CIA Operations Center and Joint Chiefs of Staff assessments — some intended only for the five eyes intelligence partners, others not releasable to allies at all — have been exposed. Some are derived from human intelligence, so could put assets at risk; many will reveal to US intelligence targets that their communications are compromised.

The files sat on a public server for months before the government realised they were there, and it doesn't appear to know whether what's already been released is the extent of the damage.

But investigations by Eric Toler of Bellingcat and other media organisations quickly revealed the source of the leak: Jack Teixeira, a 21-year-old Air National Guardsman, who is now in federal custody.

The US was lucky in that some of the information has been altered, which allows room to disparage the content and deny its accuracy (As South Korea and the UK have done). And its response — to inform allies, apologise, mitigate where possible, and hunt down the traitor — has been swift.

However, America's allies are quietly exasperated, as well they should be. The revelations will pose significant political problems for the government of South Korea (which has been caught out via intercepts prevaricating over whether to send weapons to Ukraine), further Egypt's difficulties with Congressional approval of military aid (after exposing its secret plans to supply Russia with rockets), and do real damage to Kyiv's war effort. It will unquestionably impose significant costs on US intelligence

as targets take action to shield themselves. It could also prompt allies like Ukraine to restrict access to their operations — as they have with casualty figures. This would make it far harder for Nato partners to assess the course of the war and impact of western assistance.

The dilemma for all these countries is that America's intelligence capabilities are incredibly valuable. And the US, in turn, depends on intelligence from allies to validate, correct, and legitimise its assessments. The greatest damage this leak could do would be to reduce such sharing. If in order to prevent compromise, the US restricts access further, it will lose visibility and allies will lose the ability to synchronise their actions: in other words, constricting intelligence-sharing decreases burden-sharing.

There is some good news. While specific details will be incredibly valuable to Russia and other adversaries, these are not bombshell revelations: journalists had already reported Ukrainian

ammunition running low; peace talks between Moscow and Kyiv were never likely; allies have long been aware that the US eavesdrops on them; and the disparaging assessment of Ukraine's forthcoming offensive may prove no more accurate than previous predictions were.

So far, this leak also does not appear to

America's allies are quietly exasperated by these revelations, as well they should be

be as damaging as historical exposures have been. Take Aldrich Ames, the CIA case officer and Soviet agent arrested in 1994, whose treason resulted in the execution of numerous CIA and FBI sources. Army intelligence analyst Chelsea Manning leaked 750,000 military and intelligence documents in 2010. Three years later, Department of

Defence contractor Edward Snowden disseminated more than a million pages of intelligence on military capabilities, sources and methods of collection. Both the Manning and Snowden leaks also put lives at risk.

In all but the Ames case, the leakers were low-level operatives. That suggests inadequate vetting and supervision at the more junior end; the problem is that restrictions on domestic surveillance are likely to complicate supervision of social media and extracurricular activities that might reveal dangerous proclivities. Technology making data ever more portable, distribution more global and communications more bespoke will make it easier to amass information and distribute it — either privately or publicly.

Given the damage wreaked on the Ukrainian war effort, Kyiv has played this well. The documents contained detailed assessments of their ammunition and air defence holdings, including the specific dates at which their stocks will be completely depleted, disposition

and equipping of specific units, timelines for receiving training and equipment from allies. In keeping with its overall excellence in information warfare, Ukraine's leadership was mostly silent, leaving the military to respond that battlefield information is both perishable and outdated. They will probably have already taken action to reduce the usefulness of what Russia now knows.

The Pentagon can only hope that the tactical and operational intelligence isn't useful enough to allow Moscow to torpedo Ukraine's battle plans. Given America's part in creating this vulnerability, it should be sending Kyiv replenishment weapons and helping them re-plan their offensive to drive out Russian forces. Its intelligence lapse increased the risk to Ukraine — increasing its assistance is the least it should do.

The writer is head of the foreign and defence policy team at the American Enterprise Institute

This leak of classified documents has shaken the foreign policy and defence worlds, write James Politi and Mehul Srivastava

Jack Teixeira was reading a book on the deck of his home in a wooded section of North Dighton, Massachusetts, on Thursday, when federal agents swarmed in for what turned out to be an easy arrest. The 21-year-old airman, who was wearing red shorts and an olive T-shirt, has suddenly emerged as the latest outlaw within America's national security apparatus, after a flash investigation.

The US authorities believe Teixeira was behind the massive leak of ultra-sensitive military documents, mainly related to the war in Ukraine, in a series of online postings that have shaken the US foreign policy and defence establishments and risk seriously fraying ties with key allies. He was arraigned in federal court on Friday and is being detained until a new hearing next Wednesday.

That such a junior member of the American military could be in possession of highly classified materials — and in a position to publish them — has already triggered mass soul-searching. "It's extraordinary that he has been able to get access to the way that he has and it shines a light on how shockingly easy it has been to have such a major intelligence gap," said Leslie Vinjamuri, director of the US and Americas programme at Chatham House.

Teixeira's own views, which sit at the crossroads of libertarian politics, guns, video games and religion, will compound those concerns — highlighting the difficulty the US military has in detecting extremists within its midst willing to spill America's secrets.

Teixeira enlisted in the military in September 2019, and was assigned to the intelligence wing at Otis Air National Guard base on Cape Cod. He was formally working on "cyber transport systems" — meaning he was responsible for helping to keep the US Air Force communication system running — and even won an achievement medal in September 2022.

But a darker side to this otherwise ordinary American story began to emerge online in recent years, as Teixeira posted on the "Thug Shaker Central" channel on the platform Discord. There he started to share the sensitive material he was gaining access to in his job with a small group of like-minded gun enthusiasts and gaming aficionados.

According to The Washington Post, he used names such as "jackthredripper" and "excalibureffect" — and he was also known just as "OG". Some members of the group showed the Post a video of him shouting racist and antisemitic slurs, while firing a weapon. "He loved America but simply didn't feel confident in his future," a friend told the paper.

Teixeira, whose mother owns a flower shop, was arrested not far from her home. He had graduated from Dighton-Rehoboth Regional High School in 2020, but did not stand out there, said two people who knew him at the time. The school, with about 1,000 students, sends "a lot of young men into military because we grew up hunting, and [the] National Guard helps pay



Person in the News | Jack Teixeira

## The airman accused of spilling US secrets

for college," said one pupil, who was a classmate of Teixeira's.

"He wasn't in any of the clubs, but he wasn't a loner or anything — if you told me he'd been playing video games all day though, I'd be surprised, because he wasn't like those kids either," said the classmate.

Another student, who asked to be identified only by their gamer handle, Valkery, said they had met Teixeira at a shooting range, and agreed to swap tips on techniques over a first-person shooter video game. "He knew a lot about rifles, but he wasn't showing off — he taught me a bunch," said Valkery. "It was Covid, and everybody was just playing video games in their basement all night."

There is no indication for now that Teixeira considered himself a whistleblower in the vein of Chelsea Manning or Edward Snowden, the other two architects of major US national security leaks in the 21st century. Joe Biden, on a trip to Ireland this week, sought to downplay the significance of the case.

"There's nothing contemporaneous that I'm aware of that is of great consequence," he said.

But on the fringes of America's political spectrum, Teixeira is already becoming something of a hero. "Teixeira is white, male, christian, and anti-war. That makes him an enemy to the

He wasn't a loner — if you told me he'd been playing video games all day, I'd be surprised

Biden regime. And he told the truth about troops being on the ground in Ukraine and a lot more," tweeted Marjorie Taylor Greene, the Republican congresswoman from Georgia, and a close ally of Donald Trump. "Ask yourself who is the real enemy? A young low level national guardmen [sic]? Or the administration that is waging war in

Ukraine, a non-NATO nation, against nuclear Russia without war powers?"

Most US politicians are however very much in favour of an aggressive prosecution of Teixeira. "The theft and disclosure of sensitive, classified information endangers American personnel overseas. Full stop," Mike Pence, vice-president under Trump, told Fox News. "I think he needs to be prosecuted to the fullest extent of the law."

It appears that the airman saw this coming in the last few days, as law enforcement closed in. "Guys, it's been good — I love you all," Teixeira told his online friends, according to an account in The New York Times. "I never wanted it to get like this. I prayed to God that this would never happen. And I prayed and prayed and prayed. Only God can decide what happens from now on."

James.Politi@ft.com  
mehul.srivastava@ft.com  
Additional reporting by Felicia Schwartz in Washington

## A decoupling delusion is gripping the west

James Crabtree

In our recent Beijing trips by global leaders have shed light on the many paradoxes of a future age of economic decoupling.

A visit by Emmanuel Macron, president of France, and Ursula von der Leyen, European Commission president, last week generated waves of controversy in the west. Another, by Anwar Ibrahim, prime minister of Malaysia, went almost unnoticed but in many ways proved more illuminating of the challenges of decoupling.

Macron travelled to Beijing with von der Leyen to present a united European approach to China. But he also brought a phalanx of business leaders, opening Paris up to accusations of mercantile foreign policy and leaving Europe looking divided.

A few days earlier, von der Leyen had delivered a speech in which she argued that Europe should "de-risk" rather than decouple its Chinese ties. Full decoupling was undesirable, she said, so the west should instead reduce risks in strategic sectors such as semiconductors, batteries and critical minerals. This week G7 finance ministers also talked up the need for supply chain "diversity" with plans to "empower" emerging economies.

Anwar's visit to Beijing could hardly have been more different. Here there was no talk of decoupling. Rather, Malaysia's leader hailed China's economic prowess and encouraged greater investment. He took a group of Malaysian businessmen too, returning with deals worth almost \$39bn, on paper at least.

The sight of leaders from the "global south" streaming back to Beijing should alarm the west. Having previously focused on solving China's Covid-19 crisis and securing his own third term, Xi Jinping is once again flexing his diplomatic muscles — from peace deals in Ukraine and the Middle East to investment deals for south-east Asian neighbours.

While western leaders are trying to unpick decades of globalisation, Asian nations from Bangladesh and Indonesia to Malaysia and Thailand view China as central to their economic future. Rather than decoupling, they seek more trade with Beijing. And, paradoxically, this is an outcome western policies might actually deliver.

Global businesses now talk about "friend-shoring", meaning moving production towards geopolitical partners such as India, Mexico or Poland. Alternatively, they might set up facilities in south-east Asia, where most nations are geopolitically neutral between Beijing and Washington. The likes of Malaysia and Vietnam are often predicted to be winners from decoupling, able to hover up western businesses as they leave China.

### Top reads at FT.com/opinion

• Rising temperatures in Iran heat up arguments over women's dress  
How long does it take to get a good education into something people are embarrassed about? writes Najmah Bozorgmehr

There are problems with this account, however, the first being that so far decoupling has barely begun to happen. Semiconductors are one notable exception, given successful American attempts to stop global chipmakers selling to China. But for all the talk of supply chain de-risking and resilience, similar moves in other sectors are hard to spot.

Western multinationals talk more often about a "China plus one" strategy, in which they keep making things in China but also pick another manufacturing base, Malaysia says, as a hedge.

But imagine for a second that geopolitical events take a further turn for the worse, western companies get spooked, and decoupling does begin to move forward more quickly. What then? Here, many in the west assume that shifting production will make them less reliant on China, while the decoupling process will probably draw countries such as Malaysia and Vietnam closer to the west itself. Both assumptions are questionable, to say the least.

Take Samsung, its decision in 2020 to shift production to Vietnam means the South Korean giant now assembles millions of phones in Vietnamese factories each year. Many are then exported to the west. Many components that go into those phones are still made in China, however, so Vietnam must also import more of those too.

Vietnam's bilateral trade with China has rocketed in recent years, with similar patterns discernible in the rest of what is sometimes called "factory

Asia". Forthcoming research from Aadiya Mattuo, an economist at the World Bank, suggests that east Asian nations have lately been exporting more to the US but also importing much more from China.

The result is a double paradox. First, rather than connecting emerging economies more tightly to the west, decoupling often leaves countries in regions such as south-east Asia more economically dependent upon China, not less. Second, while shifting supply chains around the world appears to leave the west less reliant on China, the continuing need for components that still mostly come from there means the fundamental vulnerability remains.

Before her recent Beijing visit, von der Leyen argued that "it is neither viable — nor in Europe's interest — to decouple from China". She is right. And given the complex and intertwined structure of modern globalisation, even the task of partially reducing dependence on the Chinese economy is likely to turn out to be much harder than it looks.

The writer is executive director of the International Institute for Strategic Studies Asia, and author of 'The Billionaire Raj'



# Companies & Markets

FINANCIAL TIMES



**Domestic difficulty** IMF tells Ghana to tackle local debt before it can approve bailout — MARKETS

**Fatal seclusion** Japan and South Korea cannot afford to have so many hermits — LEX

## BlackRock seeks opportunities in aftermath of bank turmoil

• Fink aims to extend global footprint • Assets under management top \$9tn



BlackRock's first-quarter income was squeezed by subdued markets and lower fees. Larry Fink is keen to secure a 'transformational' deal — LORANDE HUNTER/REUTERS

BROOKE MASTERS — NEW YORK

BlackRock is hunting for "transformational" opportunities created by the recent banking turmoil and market dislocation, chief executive Larry Fink said yesterday as the world's largest money manager reported that assets under management had recovered to \$9.1tn.

"If there is an opportunity to do something transformational, we are going to be prepared to do it," he told analysts. "How can we double down on what we're doing with... technology? How can we build out our footprint globally at this time?"

US regional banks, brokers and wealth managers are under pressure after the collapse of Silicon Valley Bank last month sparked concerns about unrealised losses in their securities and loan portfolios, and sent depositors scrambling to larger banks and money market funds.

BlackRock sent a team to Switzerland to look at buying part of Credit Suisse before it was forcibly merged into UBS last month, and Fink obliquely refer-

enced that decision, repeating what he said to his executives that week: "I said — to be in the game, we must play the game. And so we're in the game."

Fink bought what became its huge iShares exchange traded funds business when Barclays needed cash during the 2008 financial crisis, and it has done a series of smaller deals to expand the reach of its Aladdin technology business.

The remarks yesterday came as BlackRock reported that first-quarter net income fell 19 per cent year on year to \$1.1bn because of squeezed margins, subdued markets and lower performance fees. That translated to \$7.93 a share, ahead of the \$7.67 expected by analysts polled by Bloomberg.

Revenue was down 10 per cent year on year to \$4.2bn, with performance fees on its hedge funds and other alternative investment offerings down more than 40 per cent to \$55bn, the money manager said.

However, assets under management rose by \$500bn in the quarter to \$9.1tn, more than analysts had expected,

although they are still well short of the peak of \$10tn at the end of 2021. BlackRock also saw inflows of \$110bn, with bond exchange traded funds performing particularly strongly.

BlackRock is among the first money managers to report for the quarter, with others in the sector under pressure to slash costs to compensate for lower earnings after a tough 2022. Its first-quarter operating margin of 33.9 per cent was down sharply from the same quarter last year, and slightly missed expectations.

The inflows include \$103bn to long-term funds and reflect a strong performance in the US where BlackRock has faced persistent attacks from state officials and legislatures in Republican states over its use of environment, social

and governance factors in investing. Republican state treasurers have pulled out more than \$4bn of government pension and treasury funds from the company on the grounds that it "boycotts" fossil fuel. BlackRock has hit back, denying those claims and arguing that it invests money the way its clients want.

The company saw outflows from its cash management products in January and February but \$40bn of inflows in March as investors fled regional banks. BlackRock supplements its money management business with a chunky technology services business centred on its Aladdin risk management platform. Revenues in that division were basically flat year on year at \$340m, a bright spot when most other areas were down.

Kyle Sanders of Edward Jones said the results "exceed low expectations" and highlighted BlackRock's "ability to sustain solid asset inflows in volatile markets" but warned that profit margins would remain under pressure until markets recovered.

BlackRock shares were up 4 per cent in midday trade in New York.

Members of the Private Banking Industry Group include HSBC, Standard

## Singapore asks banks to keep quiet on China cash

MERCEDES RUEHL — SINGAPORE  
KAYE WIGGINS — HONG KONG  
LEO LEWIS — TOKYO

Singapore has asked the world's biggest banks to avoid discussing the origins of the significant sums of money flowing into the city over the past year, as wealthy Chinese funnel billions into the Asian financial hub.

The tacit directive from the Monetary Authority of Singapore was given during a February 20 meeting of an industry group made up of bankers and regulators, according to people who attended.

The flow from China into Singapore has become a politically sensitive issue domestically, and the MAS wants banks to keep public discussion of the phenomenon to a minimum, said three people with knowledge of the talks. China was not mentioned by name, but it was clear regulators were referring to the country, they added.

The influx of mainland Chinese money into Singapore comes as China's financial regulator Xi Jinping has launched a regulatory assault on business and an anti-corruption crackdown.

"It was obvious that they [the MAS] were referring to China with all the press about family offices setting up here and mainlanders moving over, though they didn't single out a particular country," said one international banker.

Members of the Private Banking Industry Group include HSBC, Standard

Chartered, UBS, RNP Paribas, JPMorgan and Citigroup, as well as local banks DBS and Bank of Singapore. It is jointly chaired by representatives of the MAS and UBS and meets three times a year.

The MAS, Singapore's central bank, said that when banks reported the sources of their inflows, they should not single out any particular markets, according to another senior banker.

The banker summarised the MAS's message as being that private banks should "just quietly do your job" because "you don't want to antagonise".

The fact directive from the Monetary Authority of Singapore came during a meeting on February 20



The MAS said the meeting in February noted that growth in fund flows into Singapore "has been driven by high net worth individuals from different regions". One banker said it was not the first time the MAS has used the forum to address large capital inflows from a particular market. In the past, booming Indonesian wealth — and the local scrutiny it attracted — concerned regulators.

"They desperately want to be the regional hub of private banking, and the situation has kind of granted them that wish. [The Chinese flows] are probably overrunning their best expectations."

Airlines

## Boeing warns fuselage issues will delay 737 Max deliveries

CLAIRE BUSHEY — CHICAGO

Boeing shares fell yesterday after the US aircraft maker said a production issue would affect its ability to deliver a "significant" number of 737 Max jets, worsening shortages for airlines around the world.

The aircraft manufacturer said late on Thursday that supplier Spirit AeroSystems had used a "non-standard" process when installing two fittings in the fuselage of certain models of the narrow-body jet, creating the possibility that it might not comply with specifications laid out by aviation regulators.

Shares in Boeing fell more than 6 per cent at the start of trading on Friday. Spirit dropped more than 17 per cent.

Boeing said the planes could still operate safely, but "the issue will probably affect a significant number of undelivered Max aeroplanes, both in production and in storage... We expect lower near-term 737 Max deliveries."

The delay will deepen headaches for Boeing's customers, many of which would like to expand their flying schedules but need to secure more planes to do so.

Supply chain difficulties have left Boeing struggling to deliver jets to big customers such as Southwest Airlines, United Airlines and Air India have also placed large orders recently with the flagships US manufacturer.

A delay in deliveries will also hamper Boeing's cash flow because it receives the bulk of payment for jets upon delivery.

The company reported \$2.3bn in free cash last year, the first time in three years that it generated more cash than it spent. Investors consider free cash — operating cash minus capital expenditures — a primary measure of Boeing's financial health.

Boeing has been trying to move past the turmoil that has gripped the company since two fatal crashes of the 737 Max in 2018 and 2019 prompted a worldwide grounding of the plane, followed by plummeting demand for air travel with the onset of the Covid-19 pandemic.

It has struggled with production problems, from building Air Force One to glitches on the 787 that halted deliveries for all but two months between October 2020 and August 2022.

## Game changing Clubs behind failed European Super League endure two years of sales and scandals

JOSH NOBLE — LONDON

Two years ago, 12 of Europe's top football clubs sought to break the sport's ecosystem and create a new competition more to their liking. But the European Super League proved a short-lived project, collapsing under the weight of protest from fans and politicians.

The idea of a breakaway competition lingers on, in the courts and via the lobbying efforts of some of its original backers, although new regulation in the UK is likely to be a major stumbling block.

Real Madrid, the project's leading advocate, and local rival Atlético have come through the past two years relatively unscathed, as have north London duo Arsenal and Tottenham Hotspur.

But for many of the teams, the period has been marked by turbulence off the pitch. Some have changed hands and others have been put up for sale, as owners reassess their future prospects with the ESL's promise of a swift capital injection no longer on the table. Others have run into trouble with the authorities.

Chelsea: new owners

Russia's invasion of Ukraine in February 2022 led to the London team's oligarch owner Roman Abramovich being sanctioned by the UK government. A forced

sale followed, US financier Todd Boehly and private equity firm Clearlake Capital agreeing to pay a record £2.5bn for the club.

The new owners have since spent more than £600m on new signings this season, prompting questions about how they plan to stick within football's financial rules. Yet the team itself has performed poorly, sinking to 11th in the Premier League. Qualification for next year's Champions League looks a long shot, adding to the financial pressure.

AC Milan: new owners

At the time of the ESL, AC Milan had endured a decade without an Italian league title. The club was then in the hands of Elliott Management, the US hedge fund, which had taken control in 2018 after its previous Chinese owner defaulted on a €300m loan. The season after the ESL collapsed, Milan won Serie A, giving Elliott a clear opportunity to cash out. The team was sold to RedBird Capital, a US sport-focused private equity firm run by Gerry Cardinale for £1.2bn in 2022, a record for a club outside the Premier League.

Manchester United: for sale

The £2.5bn price tag for Chelsea could soon be eclipsed if the Glazer family

presses ahead with a sale of the 13-time Premier League winner. The Florida-based owners bought the club for £790m in 2005 in a leveraged buyout that has provoked fan protests.

In November, they formally put the club up for sale. Since then two full takeover proposals have come to light, one from UK chemical billionaire Sir Jim Ratcliffe, the other from Sheikh Jassim bin Hamad Al Thani, the son of one of Qatar's richest men.

A full sale is not guaranteed. A handful of US investment funds have also submitted proposals that would bring cash into the club.

Inter Milan: for sale

Inter Milan has been owned by Chinese electronics retailer Suning since 2016, and has a large outstanding loan from Oaktree, the US debt fund. With interest rates rising and the parent company's business under pressure at home, Inter's owners have been looking for new investment or an outright sale.

Liverpool: hunting for investment

Liverpool's US owners Fenway Sports Group, which also owns the Boston Red Sox baseball team, said in November that it was exploring strategic options for the Premier League side. Five

months later, with no sign of a serious bid, FSG's chief John Henry said the sale process was off. But a new minority investor could still come on board.

Juventus: punished for misconduct

As chair of Juventus, Andrea Agnelli was one of the key architects of the ESL. But he is no longer at the club. In January, Juve were docked 15 points by the Italian football federation following an investigation into allegations of false accounting. Agnelli and the rest of the board resigned while a number of club staff were banned from working in football. Juventus, which has denied wrongdoing, has said it will appeal against the decision.

Barcelona: under investigation

The financial stress afflicting the Catalan team became increasingly clear in the months after the ESL collapsed. President Joan Laporta declared the club "clinically dead" because of its mounting debts. Losses hit €500m in the summer of 2021. What followed was an exodus of talent, including talismanic forward Lionel Messi.

Last summer further financial surgery was needed in order to meet the Spanish League's strict spending controls. The club sold a portion of its future

broadcast rights to US private equity firm Sixth Street, and a stake in its audiovisual studios, together raising over €600m.

Barcelona is currently top of the league, 13 points clear of arch-rivals Real Madrid. But the club is now embroiled in a scandal related to payments it made to a former high-ranking referee. It has denied wrongdoing.

Manchester City: charged by league

The English champions have not suffered on the pitch since the ESL's collapse. The team are well placed to win the title again this year if they can outpace Arsenal over the season's final stretch.

The Abu Dhabi-backed side are also heavy favourites to win the Champions League this year, in what would be a first for the world's richest club.

But serious troubles are looming off the pitch. In February, the Premier League referred the club to an independent commissioner to consider more than 100 accusations of rule breaking in relation to its finances over a period spanning more than a decade.

Potential sanctions include fines, points deductions and even ejection from the league. City denies any wrongdoing.



Chelsea (in blue) and Real Madrid were two of the clubs that planned the European Super League two years ago. Chelsea were subsequently sold and poor results this season have put the club under pressure — JUAN RODRIGUEZ/REUTERS



COMPANIES & MARKETS

Banks should keep faith in living wills despite Credit Suisse

The Top Line Laura Noonan



Why spend millions developing a plan to manage safely the collapse of a stricken bank only for it to be ignored when an institution is in peril? It is the question executives at some of the biggest lenders were asking on a call organised by the Institute of International Finance...

not an option in a "extremely fragile environment". Given many executives believe the wider environment would have to be extremely fragile for a really major bank to fail, the decision by Swiss regulators has merely confirmed a long-held belief that such resolution plans are merely an academic exercise.

actual resolution situation happens," said Nicolas Veron of the Bruegel Institute. It is a view echoed by regulators. One said: "Even if we never use a resolution plan, the fact that it is there as the default... can have a positive impact on the willingness of parties to come to another solution."

"The fact that it is there can have a positive impact on the willingness of parties to come to another solution"

laura.noonan@ft.com

The EY Americas chief caught up in a 'civil war'

Spotlight Julie Boland US chair EY



When Julie Boland was picked last year to head EY's US business, partners hoped she would end a period of infighting that had culminated in the exit of her sharp-elbowed predecessor, Kelly Grier. Boland was "Switzerland", they joked, a neutral party with a reputation for consensus-building and an almost preternatural niceness of the kind found only in the US Midwest.

'There's a way to lead by building consensus and there's a way to use consensus as an excuse not to lead' worked with her, "and there's a way to use consensus as an excuse not to lead". For others, the eleventh-hour decision to shoot down Project Everest said a lot about Boland's leadership qualities, given that she was set to be the institution much more than she cares about her personal title, "said one senior partner. Boland, 56, knows her EY history. Her father, Jim Boland, spent 34 years at the firm, becoming a senior partner in Ohio and a member of its US management before going on to run the Cleveland Cavaliers basketball franchise.

Some partners are aggrieved that Boland allowed the project to get so far, others that she failed to win over opponents would be strong enough. Unanimity on the 16-strong US executive committee proved elusive. The split has not been revealed, but Everest did not achieve the two-thirds majority needed on the committee. "Given the strategic importance of the US member firm to Project Everest, we are stopping work on the project," Di Sibio and the global executive announced, tersely, on Tuesday.

firm's influence over its international operations and the size of the fee it could command. Her exit was so acrimonious that by the time Boland was elected in February 2022 she had not attended regular global executive meetings for several months. Relations between the US firm and the rest of the global network may be even lower now. The frustration of Everest's proponents is not just that the US firm appeared to backtrack on a September agreement to put the break-up to partner votes but that it did so after driving a very hard bargain throughout negotiations. "We've made every concession they've asked for," said an exasperated senior partner outside the US, who blamed the U-turn on Boland's "compunction to seek unanimity" among the US leadership. "There's just a lot of indecisiveness; a little bit of who's influenced her last, who's had the last session with her."

BUSINESS WEEK IN REVIEW

Pegasus spac shuts

- Pegasus Europe, the continent's biggest bank-check company backed by LYMM founder Bernard Arnault and former UniCredit chief Jean Pierre Muttier, is set to be wound up after failing to find a target in the financial services sector.
• Japanese billionaire Masayoshi Son's Softbank group has sold most of its remaining shareholding in Alibaba, offloading about \$7.2bn worth of shares in the Chinese tech giant through prepaid forward contracts after a record \$29bn sell-down last year.
• JPMorgan Chase wants its managing directors to be in the office five days a week and warned its global workforce of roughly 294,000 employees not to fall short of "in-office attendance expectations" following the end of pandemic flexible working.
• Royal Bank of Canada emerged as the biggest financier of the fossil fuel industry in 2022, knocking JPMorgan from the top spot, as Canadian banks increasingly take on the role as the "lenders of last resort" for controversial carbon-intensive projects.
• Universal Music Group told streaming platforms, including Spotify and Apple, to block artificial intelligence services from scraping melodies and lyrics from their copyrighted songs.
• Goldman Sachs made several leadership changes

The Chinese financial sector faces a series of new corruption investigations and a surge in surprise audits of venture funds

- in its global equities trading business following the retirement last month of Joe Montesano, one of the division's biggest money spinners.
• Twitter's former chief executive Parag Agrawal and two other former executives are suing the Elon Musk-owned social media platform for failing to cover more than \$10m in personal legal expenses.
• China's financial sector faces a series of new corruption investigations and a surge in surprise audits of venture funds, as President Xi Jinping sharpens his focus on an industry he sees as failing to serve the broader economy.
• Keith Barr, chief of Holiday Inn owner InterContinental Hotels Group, warned that the UK stock market is "not a very attractive place" for listed companies and called on authorities to get on the "front foot" to arrest further decline.

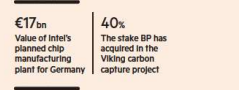
Media

India opposition cites 'mysterious' fall in Gandhi YouTube viewership

JOHN REED — MUMBAI CRISTINA CRIDDLE — LONDON India's Congress party has written to Google parent Alphabet demanding to know whether there has been "suppression" of videos by Rahul Gandhi, the country's most prominent opposition politician, on its YouTube site. The party made the request in a letter, seen by the Financial Times, that was sent on Wednesday to Alphabet's Indian-born chief executive Sundar Pichai. It comes after Congress previously wrote to Neal Mohan, YouTube's chief product officer, urging the US tech group to make a similar inquiry last month. The intervention threatens to drag Alphabet into the deepening political antipathy between Narendra Modi's ruling Bharatiya Janata party and Congress, India's largest opposition group, a year before the next general election. Gandhi was convicted of criminal defamation last month and given a suspended two-year prison sentence that he is appealing against, prompting Parliament to disqualify him as an MP. The 52-year-old politician claimed his expulsion from parliament was politically motivated, but BJP officials have rejected this, saying it was automatic following his conviction. Gandhi has recently emerged as a leading potential rival to Modi after completing a widely followed pan-India trek and delivering a scathing speech in parliament on alleged links between the prime minister and Gautam Adani in early February, shortly after Adani's conglomerate came under attack by short seller Hindenburg Group. In the party's letter to Google, Congress's chair responsible for data analy-

tics, Praveen Chakravarty, claimed Gandhi's YouTube channel "experienced a sudden and mysterious drop in viewership" after his Adani-themed speech, which the BJP-controlled parliament expunged from its record. "What explains such volatility?" wrote Chakravarty to Pichai. "Surely, the sudden drop in viewership, post a criticism speech, is not coincidence but suppression?" Along with its letter to Pichai, Congress sent Google its research claiming drops in video viewership on Gandhi's YouTube channel fell from 6m a week previously to 3m after the speech. The opposition group had previously raised the issue in March with Mohan, prompting media coverage and leading YouTube to say it would look into the claims. After those news reports, viewing figures on the account rose to 11m a week, the latest letter says.

'Surely, the sudden drop, post a criticism speech, is not coincidence' "almost like a switch was turned back on again". Chakravarty wrote: "This is a troubling pattern, especially when seemingly neutral social media platforms remain the lone outlets for opposition voices." YouTube said: "We reviewed the allegations and found no issues with the channel. We have not made changes on our side." Asked whether Google had faced any pressure or request from authorities regarding Gandhi's online content, Kanchan Gupta, an Indian government senior adviser, said: "Any such allegation or implied imputation is mendacious and specious speculation." "The government of India and its agencies have neither the time nor the inclination for anything remotely similar to what is being suggested directly and indirectly."



- Germany is pushing US semiconductor group Intel to expand its plans for a landmark €17bn chip plant in exchange for higher subsidies, in what is already set to be the country's largest foreign direct investment since the second world war.
• Jes Staley, the former JPMorgan Chase executive being by the bank for allegedly failing to disclose his participation in Jeffrey Epstein's sex crimes, must face trial alongside his former employer, a New York judge ruled. The bank faces two lawsuits related to accounts held by the late paedophile.
• BP acquired a 40 per cent stake in the UK's Viking CCS project from Harbour Energy as the government looks to accelerate plans to develop carbon capture and storage.



COMPANIES & MARKETS

# OpenAI crack unit worked to 'break' ChatGPT

Eclectic squad of experts tapped to 'adversarially test' language tool and address concerns over wider deployment

MADHUMITA MURGA  
ARTIFICIAL INTELLIGENCE EDITOR

After Andrew White was granted access to GPT-4, the new artificial intelligence system that powers the popular ChatGPT chatbot, he used it to suggest an entirely new nerve agent.

The chemical engineering professor at the University of Rochester was among the 50 academics and experts hired to test the system last year by OpenAI, the Microsoft-backed company behind GPT-4. Over six months, this "red team" would "qualitatively probe [and] adversarially test" the new model, attempting to break it.

White told the Financial Times that he had used GPT-4 to suggest a compound which could act as a chemical weapon and used "plug-ins" that fed the model with new sources of information, such as scientific papers and a directory of chemical manufacturers. The chatbot then even found a place to make it.

"I think it's going to equip everyone with a tool to do chemistry faster and more accurately," he said. "But there is also significant risk of people... doing dangerous chemistry. Right now, that exists."

The alarming findings allowed OpenAI to ensure such research would not appear when the technology was released more widely last month.

The red team exercise was designed to address the widespread fears about the dangers of deploying powerful AI systems in society. The team's job was to

'There is also significant risk of people... doing dangerous chemistry. Right now, that exists'

ask probing or dangerous questions to test the tool that responds to human queries with detailed and nuanced answers.

OpenAI wanted to look for issues such as toxicity, prejudice and linguistic biases in the model. So the red team tested for falsehoods, verbal manipulation and dangerous scientific news.

They also examined its potential for aiding and abetting plagiarism, illegal activity such as financial crimes and cyber attacks, as well as how it might compromise national security and battlefield communications.

The FT spoke to more than a dozen of the GPT-4 red team. They are an eclectic mix of white-collar professionals: academics, teachers, lawyers, risk analysts and security researchers, and largely based in the US and Europe.

Their findings were fed back to OpenAI, which used them to mitigate and "retrain" GPT-4 before launching it more widely. The experts' work spent from 10 to 40 hours testing the model over several months. Most of those interviewed said they were paid \$100 an hour for the work they did.

Those who spoke to the FT shared common concerns on the rapid progress of language models and, specifically, the risks of connecting them to external sources of knowledge via plug-ins.

"Today, the system is frozen, which means it does not learn any more, or have memory," said José Hernández-Orallo, part of the GPT-4 red team and professor at the Valencian Research Institute for Artificial Intelligence. "But what if we give it to access to the internet? That could be a very powerful system connected to the world."

OpenAI said it took safety seriously, tested plug-ins prior to launch and would update GPT-4 regularly as more people used it.



Members of 'red team' interviewed by the FT

**Paul Röttger** Oxford Internet Institute: PhD student focusing on the use of AI to detect online hate speech

**Anna Mills** English instructor, College of Marin, US: Writing teacher at a community college, testing for learning loss

**Maarten Sap** Carnegie Mellon University, US: Assistant professor, specialises in toxicity of language model outputs

**Sara Kingsley** Carnegie Mellon University: PhD researcher specialising in online labour markets and tech impact on work

**Boru Gollo** Triple OK Law LLP, Kenya: Lawyer who has studied opportunities for AI in Kenya

**Andrew White** University of Rochester, US: Associate professor, computational chemist, AI and drug design interests

**Aviv Ovadya** Berkman Klein Center for Internet & Society, Harvard University: Focus on impacts of AI on society and democracy

**Nathan Labenz** Co-founder of Waymark, US: Head of AI-based video editing start-up

**José Hernández-Orallo** Professor, Valencian Research Institute for Artificial Intelligence, Universitat Politècnica de València: AI researcher working on evaluation and security of AI software

**Lauren Kahn** Council on Foreign Relations, US: Research fellow focusing on how the use of AI in military systems alters risk dynamics on battlefields and raises the risk of unintended conflict and inadvertent escalation

**Lexin Zhou** Universitat Politècnica de València: Researcher working on making AI more socially beneficial

**Dan Hendrycks** Director of the Center for AI Safety at University of California, Berkeley: Specialist in AI safety and reducing societal-scale risks from AI

**Roya Pakzad** Founder, Taraz, US/Iran: Director of non-profit working on tech and human rights

**Heather Frase** Senior Fellow, Georgetown's Center for Security and Emerging Technology: Expertise in the use of AI for intelligence purposes and operational risks of large defence systems

Roya Pakzad, a technology and human rights researcher, used English and Farsi prompts to test the model for gendered responses, racial preferences and religious biases, specifically with regard to head coverings.

Pakzad acknowledged the benefits of such a tool for non-native English speakers but found that the model displayed overt stereotypes about marginalised communities, even in its later versions.

She also discovered that so-called hallucinations – when the chatbot responds with fabricated information – were worse when testing the model in Farsi, where Pakzad found a higher proportion of made-up names, numbers, and events compared with English.

"I am concerned about the potential diminishing of linguistic diversity and culture behind languages," she said.

Boru Gollo, a Nairobi-based lawyer who was the only African tester, also noted the model's discriminatory tone.

"There was a moment when I was testing the model when it acted like a white person talking to me," Gollo said. "You would ask about a particular group and it would give you a biased opinion or a very prejudicial kind of response."

OpenAI acknowledged that GPT-4 could still exhibit biases.

Red team members assessing the model from a national security perspective had differing opinions on the new model's safety.

The red team's findings were fed back to OpenAI, which used them to mitigate and "retrain" GPT-4 before launching it more widely.

Lauren Kahn, a research fellow at the Council on Foreign Relations, said that, when she began to examine how the technology might be used in a cyber attack on military systems, she said she "wasn't expecting it to be quite such a detailed how-to that I could fine-tune".

However, Kahn and other security testers found that the model's responses became considerably safer over the time tested.

OpenAI said it trained GPT-4 to refuse malicious cyber security requests before it was launched.

Many of the red team said OpenAI had done a rigorous safety assessment before the launch.

"They've done a pretty darn good job at getting rid of overt toxicity in these systems," said Maarten Sap, an expert in language model toxicity at Carnegie Mellon University.

Sap looked at how different genders were portrayed by the model and found the biases reflected social disparities.

However, Sap also found that OpenAI made some active politically-laden choices to counter this.

"I'm a queer person. I was trying really hard to get it to convince me to go to conversion therapy," Sap said. "It would really push back – even if I took on a persona, like saying I'm religious or from the American South."

However, since its launch, OpenAI has faced extensive criticism, including a complaint to the Federal Trade Commission from a tech ethics group that claims GPT-4 is "biased, deceptive, and a risk to privacy and public safety".

The company recently launched a feature known as ChatGPT plug-ins, through which partner apps such as Expedia, OpenTable and Instacart can give ChatGPT access to their services, allowing it to book and order items on behalf of human users.

'We need much more robust safety evaluations before we let AI wield the power of the internet'

Dan Hendrycks, an AI safety expert on the red team, said plug-ins risked a world in which humans were "out of the loop".

He added: "[W]hat if a chatbot could post your private info online, access your bank account, or send the police to your house? Overall, we need much more robust safety evaluations before we let AI wield the power of the internet."

Those interviewed also warned that OpenAI couldn't stop safety testing just because its software was live. Heather Frase, who works at Georgetown University's Center for Security and Emerging Technology and tested GPT-4 with regard to its ability to aid crimes, said risks would continue to grow as more people used the technology.

"The reason why you do operational testing is because things behave differently once they're actually in use in the real environment," she said.

She argued that a public ledger should be created to report incidents arising from big language models, similar to cyber security or consumer fraud reporting systems.

Sara Kingsley, a labour economist and researcher, suggested the best solution was to advertise the harms and risks clearly. "Like a nutrition label".

She said: "It's about having a framework, and knowing what the frequent problems are so you can have a safety valve. That's why I say the work is never done."

Technology

## US bank woes hit India tech service providers

CHLOE CORNISH – MUMBAI

The US banking turmoil has hit India's flagship IT service providers Tata Consultancy Services and Infosys, which this week reported that anxious US clients had avoided spending decisions and even cancelled projects.

Both TCS, India's second-biggest listed company by market value, and rival Infosys missed analysts' expectations on growth, as fears of a recession and a crisis in US banking pooled companies into trimming their IT spending.

After the collapse of US lenders Silicon Valley Bank and Silvergate, and USBS's emergency takeover of Credit Suisse, "there was a pause in spending in the month of March by the banking customers," said Sumeet Jain, an IT sector analyst at Mumbai-based ICICI Securities. He said this delayed decision-making and spending "for a few weeks, it wasn't even an entire month".

But the banking sector wobble had an outsized impact on TCS and Infosys because finance companies

represent a key customer base.

Banking and financial services "is definitely the biggest vertical for all of the Indian IT services industry, including Infosys and TCS", said Jayanthi Kolla, founder and partner at Convergence Catalyst in Bengaluru. Of that banking sector business, "the US banking industry contributes between 60 and 65 per cent", said Kolla.

The "financial services vertical was impacted by budgeting delays at the start of the year led by macroeconomic uncertainties coupled with softness in mortgages and asset management and investment banking", Infosys chief financial officer Nilanjana Roy said on a call with industry analysts on Thursday evening.

Chief executive Sallie Parikh said the environment remained uncertain. "Some industries such as... investment banking, telecom, high-tech and retail are more impacted, leading to uncertainty in spend and delays in decision making. The US is more impacted than Europe," he said.

Infosys posted quarterly revenues to March of \$4.5bn, down 3.2 per cent in constant currency terms compared with the previous quarter and missing analysts' expectations of 0.1 to 0.3 per cent growth.

TCS chief operating officer NG Subramaniam said customer sentiment in European and American banking, retail and technology sectors "was one of caution" in the quarter to March. "We saw clients deferring newer initiatives which were not critical, and in some cases, completely halt discretionary projects," Subramaniam told analysts this week.

"Anxiety around the stability of the banking sector in March also added to the uncertainty," Subramaniam added. TCS reported \$7.2bn in quarterly revenues, representing 0.6 per cent growth quarter on quarter, but missing analysts' expectations of a 0.9 per cent rise.

Analysts said they expected the outflows to weather any economic crisis. "The Indian IT industry has proved itself to be a survivalist cockroach in previous recessions," said Kolla.

Banks

## Rate rises threaten HSBC's French retail sale

STEPHEN MORRIS – BANKING EDITOR

HSBC has warned that the sale of its French retail bank to Cerberus for a token €1 is now in doubt, after a series of "significant, unexpected interest rate rises" increased the amount of capital the US private equity group will have to inject.

Cerberus "has advised us that they consider that they will be unable to obtain regulatory approval without amending the previously agreed transaction terms", the bank said yesterday. "The parties are continuing discussions. If the transaction does proceed, it is expected that closing will be delayed."

The deal, signed in June 2021, would have seen HSBC's 244 branches and 800,000 customers sold to Cerberus's subsidiary MyMoneyGroup for a nominal amount. It was part of HSBC's drive to increase its focus and asset allocation to its most profitable markets in Asia and cut ties with loss-making businesses in Europe and the US.

To exit the retail network, which had

lost \$500m in the two years prior to the agreement, it was prepared to take a pre-tax loss of roughly \$2.5bn alongside a \$700m charge relating to impairment of goodwill.

As part of the sale, HSBC had agreed to ensure the business had a net asset value of \$2bn when handed over – a commitment that could have required

€1	\$2.5bn
The nominal sum Cerberus was set to pay for HSBC's French retail bank	The pre-tax loss HSBC was prepared to take in the deal

HSBC to inject more cash. If the sale collapses it will be a blow to HSBC, which has come under severe pressure from its largest investor Ping An. The Chinese insurer is campaigning to split the sprawling bank into east and west units.

The jeopardised deal with Cerberus is just the latest example of how a series of sharp rate rises around the world, after more than a decade of easy monetary

policy, have caused dislocations in the global financial system.

HSBC said that changes to the "related fair value accounting treatment on acquisition" caused by rate rises "will significantly increase the amount of capital required".

It added that it remains committed to pursuing the sale providing appropriate terms can be agreed, but that if this did not happen by the end of May next year the agreement would be terminated.

This deadline can be extended to November under certain circumstances. Assuming the deal with Cerberus had closed, MyMoneyGroup had planned to restructure the Crédit Commercial de France brand, which HSBC brought for €1.1bn in 2000. At the time HSBC took control, CCF boasted high-end customers as well as a handful of regional banks. Over the past two decades, HSBC sold off CCF's regional banks, for €2.1bn, its headquarters on the Champs-Élysées for €400m and folded some of its operations into those of the wider group.



COMPANIES & MARKETS

Fixed income. Rescue criteria

# Ghana default puts local debt 'can of worms' in spotlight



**IMF insists government must deal with domestic creditors before it will approve a bailout**

**JONATHAN WHEATLEY**

When Ghana defaulted on its debts and reached a preliminary agreement on a \$3bn IMF bailout last December, the world's lender of last resort imposed many familiar conditions to get the country's finances back on track.

One demand, however, was strikingly new and analysts said it would change the debt landscape forever.

The IMF said that, before it asks its board to approve the support package, Accra must first address its domestic debts – money typically borrowed from local banks, pension funds and insurance companies.

"This has opened a can of worms, in Ghana and elsewhere," said Thy Louw, emerging market debt portfolio manager at investment company Ninety One. "Every restructuring is going to have this issue hanging over it."

The dilemma for governments is that as they fall into default they face a stark choice. If they force overseas creditors to shoulder all the pain, they risk losing access to foreign capital while struggling to restore their overall debt to a sustainable footing.

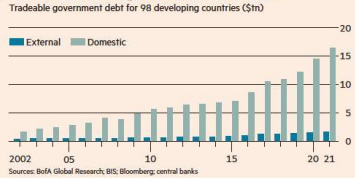
Yet pushing losses on to domestic creditors risks wiping out local banks, pension funds and insurance groups.

The cost to taxpayers of recapitalising a banking sector can be more than the savings achieved through debt restructuring.

In Ghana, "if you just restructure the external debt, that's not enough to get you back on a path to debt sustainability," said Joe Deaux, emerging markets distressed debt portfolio manager at Amundi.

Back in the late 20th century, when

**Domestic debt has surged faster than external debt**  
Tradeable government debt for 98 developing countries (\$bn)



Sources: BofA Global Research, BIS, Bloomberg central banks

emerging markets suffered two decades of almost continuous debt crises, domestic debt was barely an issue. In fact, the lack of local debt markets was a serious concern.

Many countries had borrowed heavily by issuing bonds denominated in US dollars. These appealed to foreign investors because they shielded them from currency risk and other instabilities.

For borrowers, they were cheaper than bonds issued at home, where lenders demanded compensation for risks such as high inflation.

But borrowing in US dollars left countries exposed to shocks beyond their control, as the 1980s and '90s brutally illustrated in Latin America, Asia and elsewhere. In 1999, economists Barry Eichengreen and Ricardo Hausmann described reliance on foreign currency financing as "original sin".

Since then, urged on by the likes of the IMF and the World Bank, many emerging economies have developed deep domestic capital markets that allow them to borrow primarily at home. Brazil, India and South Africa have almost no foreign currency public debt at all.

During years of low global interest rates, the local currency debts of developing countries accumulated

almost under the radar. For many governments, they became vital sources of funding. Some put limits on the amount local banks and others can hold a big share of their assets in domestic government debt. This limits the capital that would otherwise be available for businesses to put to work in productive investments, stymying growth.

"The more a country develops its financial markets, the more debt tends to be accumulated in its local market," says Delvaux. "But the moment you are in debt distress, because local debt is a bigger component than it used to be, it becomes an integral part of what has to be considered in debt restructuring."

Local currency government debt is also often short term and expensive to service. In Ghana, according to IMF forecasts before its default, the stock of external public debt this year was the equivalent of 45 per cent of gross domestic product, slightly larger than domestic debt, at 41 per cent of GDP.

But the cost of interest payments on domestic debt was set to be much greater – roughly half of central government revenues, compared with about 15 per cent of revenues on external debt.

Compared with some, Ghana's case is

**Market fallout:** spending on health, education and infrastructure in Ghana has come to a halt after the debt crisis

Estimote Analytics/Bloomberg

relatively benign. Sri Lanka, which has reluctantly followed Ghana's lead by preparing to restructure its domestic public debts alongside its external ones, has a roughly even split in its public debt stock between domestic and external.

But the cost of servicing domestic debt was equal to 21.5 per cent of GDP last year, according to the IMF, compared with 9.4 per cent of GDP for external debt.

Other examples are more extreme. Pakistan, which is teetering on the brink of default, has public debts equal to 75 per cent of GDP, according to the IMF, of which two-thirds is domestic. But its interest payments on domestic debts are six times those on external debts.

In Egypt, public debt is 88 per cent of GDP, according to the IMF, of which three-quarters is domestic. Interest on domestic debt costs 10 times the interest on external debt.

Pakistan and Egypt both have the backing of IMF programmes, Pakistan's is suspended. Other countries at similar levels of distress have no such backstop.

Shortly before its external default in December, Ghana unveiled its "voluntary" restructuring of local government bonds on terms that finance minister Ken Ofori-Atta described as "punitive" for banks and other lenders.

Nevertheless, he told the Financial Times last week, there was no alternative if debt restructuring overall was to restore debt sustainability and put Ghana back on a path to growth. "The issue was, are we acknowledging that we are in a crisis and how are we going to share the burden together and out of it."

With debt service eating up 70 per cent of government revenues before the default, spending on health, education and infrastructure "had come to a jagged halt", he noted, adding: "That is why we are battling now to get back to what we should be doing."

**Fixed Income**

## US regulator calls for greater scrutiny of hedge funds after bond turmoil

**LAURA NODMAN, STEFANIA PALMA AND KATIE MARTIN**

Hedge funds and other parts of the shadow banking system should face greater scrutiny after last month's shakeout in US government bonds, the country's top markets regulator has said, reflecting concerns that speculative investors pose a risk to financial stability.

Gary Gensler, chair of the Securities and Exchange Commission, told the Financial Times that taming risks from speculative funds and other so-called non-bank financial institutions was now "more important than ever".

He wanted a better understanding of how bets by such asset managers, often highly leveraged, can spill out across asset classes and into the real economy.

His comments signal regulators' determination to tackle risks outside the banking sector following a UK government bond crisis that contributed to the ejection of Liz Truss's government last year and what Gensler termed as March's "once-in-a-generation" rally in Treasuries.

"We just had Treasury yields move

more significantly than they had in 35 years in three days in mid-March," he said, referring to the rally sparked off by the failure of Silicon Valley Bank.

"When you have that, it's appropriate as a capital markets regulator to talk to folks and see whether that risk... propagates out."

As well as initiating such contacts, the SEC can also propose forcing market

"When you have that, it's appropriate as a capital markets regulator to talk to folks"

participants to increase disclosure of their activities.

But regulators have concentrated over the past decade on the banks that helped spark the 2008 financial crisis, largely leaving hedge funds alone – even after the 2021 collapse of Archegos, the hedge fund-style family office.

In the meantime, assets managed by hedge funds globally have more than quadrupled to \$4.8tn since 2009, according to data provider Barclay-

**Equities**

## Investor sold entire Charles Schwab stake amid banking ructions

**ORTENCA ALIAJ AND ANTOINE GARA**

**NEW YORK HARRIET AGNEW — LONDON**

One of Charles Schwab's largest investors sold its entire \$1.4bn stake in the brokerage giant during last month's banking turmoil amid fears over paper losses on its bond portfolio following the collapse of Silicon Valley Bank.

GQG Partners, a Florida-based investment firm, had been among Schwab's top 15 shareholders with 1 per cent of the stock, according to Bloomberg data, and was one of the only active managers with such a large position.

It sold the stake due to concerns over the unrealised losses and that a profit-crushing movement of deposits would affect the brokerage's future growth.

"We didn't see an existential risk but they were caught up in the sentiment around banks," Mark Barker, head of international at GQG Partners, said when asked about the share sale.

GQG had built the position in the third quarter of 2022, according to securities filings. The holding of 17.4m shares at year-end was worth \$1.4bn, though it was unclear how much the shares were worth when the stake was sold.

Schwab, an investment group with a banking licence, was among the hardest hit firms during the turbulence last

"We didn't see an existential risk but they were caught up in the sentiment around banks"

month when the US government was forced to step in to protect depositors at SVB and Signature Bank after the two lenders failed in quick succession.

The value of Schwab shares have fallen about a third since early March when fears about the health of firms with large underwriter bond portfolios hit fever pitch.

The turmoil hit as Schwab customers were moving their cash from low-yielding accounts to products with higher returns such as the broker's money market funds, allowing them to take advantage of interest rate rises implemented by the US Federal Reserve.

"With all the inflows to money-market funds, Charles Schwab is losing deposits revenue," said Barker.

Schwab declined to comment.

Investors and depositors will receive a clearer view of the damage done to the regional banking sector and Schwab when US companies announce first-quarter earnings next week. Schwab releases its results on Monday.

At the end of the year, Schwab held a combined \$350bn in mortgage-backed bonds, treasuries and debt securities.

But the portfolio was worth \$307bn when marked down to take account of the decline in bond prices, which have fallen as the Fed has raised rates.

Some of those unrealised losses caused the brokerage's common equity to fall to \$27bn at the end of the year compared with more than \$46bn at the same point in 2021, the filings showed.

**Travel & leisure**

## Harris nears record \$6bn deal for NFL's Washington Commanders

**SARA GERMANO — NEW YORK**

Josh Harris, the private equity billionaire, is nearing an agreement to buy the US National Football League's Washington Commanders in a deal that values the franchise at close to \$6bn, according to people familiar with the matter.

A \$6bn price tag would make the Commanders the most expensive sports team ever sold, trumping last year's \$4.6bn sale of the NFL's Denver Broncos to Walmart heir Rob Walton.

Professional clubs' valuations have appreciated rapidly amid rising revenues for media rights and an influx of private capital into leagues and teams around the world.

The agreement between Harris and Commanders owner Dan Snyder would make the former Apollo Global Management co-founder the preferred bidder, though any deal would be subject to NFL approval, people said.

Jeff Bezos, the Amazon founder and owner of the Washington Post, had earlier explored a bid for the Commanders with rap and entertainment mogul Jay-Z.

The transaction would give Harris a crown jewel in an expanding sporting group that also includes majority ownership of the National Basketball Association's Philadelphia 76ers, the National Hockey League's New Jersey Devils and the English Premier League's Crystal Palace.

Harris and Blackstone executive David Blitzer control the portfolio through their privately held sports management firm, HRSB.

Harris's bid for the Commanders

includes a minority investment from retired Los Angeles Lakers basketball star Magic Johnson, one of the people familiar with the matter said.

News of the agreement was first reported by Sportico.

The potential sale would also end years of controversy over Snyder's ownership. In 2020, he agreed to change the team's name after years of campaigning by American indigenous groups who said the use of its previous moniker, the Redskins, was a racial slur.

Snyder has simultaneously been the focus of investigations into what a US House Oversight Committee report alleged was "a deeply entrenched toxic work culture under the leadership of team owner Daniel Snyder".

Among its findings, the committee determined that Snyder had inappropriately touched a former employee at a work dinner, commissioned "sexually suggestive" video footage of cheerleaders without their consent, and interfered with the NFL's own independent investigation into such claims. A spokesperson for Snyder has called the House investigation "a politically charged showtrial".



A deal would give Josh Harris a crown jewel in an expanding sports empire



COMPANIES & MARKETS

# On Wall Street

## Doomed drone tells tale of SVB's eccentric loans



**Mark Vandevelde**

Had it ever left the ground, these self-piloting camera drones that Antoine Balaresque dreamt of building when he was an undergraduate at Berkeley would have been a marvel of the modern world.

The loan from Silicon Valley Bank that sustained his doomed venture aroused a different kind of wonder.

It is unlikely that many banks would have considered Lily Robotics for a loan in late 2015. The most visible achievement of Balaresque's company, which he set up soon after graduating, had been to produce one of that year's most-watched YouTube advertisements.

In the video, a kayaker throws a Lily camera aloft before plunging down whitewater rapids; the device automatically pursues his, shooting cinematic footage as it goes.

Unfortunately, Lily never made a device capable of doing all that, according to a lawsuit that was later filed by the San Francisco district attorney. The company did raise \$14m in venture capital to try to turn its vision into reality but spent a significant portion of the cash without manufacturing a single drone.

As the self-described "financial partner of the innovation economy", SVB specialised in lending to such hard cases. An arresting sentence in SVB's final set of accounts, published weeks before the bank's failure in March, declared that "many of our loans . . . are made to companies with modest or negative cash flows [and] no established record of profitable operations".

In December 2015, SVB agreed to lend Lily \$4m with interest of just 1 per cent above its "prime rate". At the time, Lily was burning through \$1m a month. Repayment was due over four years.

As it turned out, unconventional lending practices do not even register among the causes of America's second-biggest bank failure. SVB's leadership blew themselves up by ploughing flighty customer cash into long-dated government bonds, which mechanically lose value when interest rates rise.

Still, the banality of the bank's demise should not preclude a reappraisal of its unusual \$74bn loan book.

### The banality of the bank's demise should not preclude a reappraisal of its unusual \$74bn book

By SVB's own tally, 70 per cent of its loans consisted of "low credit loss lending" to vineyards, private equity funds and "innovation economy influencers". The rest was more idiosyncratic.

About 9 per cent of the total went to companies that the bank considered unlikely to be able to pay back what they owed unless they could find a buyer or raise new money.

According to one academic estimate, three-quarters of venture capital-backed companies eventually fail.

This all sounds like an excellent way to lose money. Executives at First Citizens Bank, which bought the loan book in a fire sale organised by regulators, were careful to praise "the strong underwriting practices of legacy SVB".

Even so, they gave themselves a large cushion. The \$16.5bn discount that First Citizens negotiated at auction suggests that some bidders were hesitant.

It is tempting to dismiss SVB's lending to risky start-ups just another

aberration by a bank that ultimately failed. Yet there are other possibilities.

One suggestion is that AT&T may have been able to profit from venture lending where other banks could not. Some start-ups veterans say privately that VCs firms cared enough about their standing with SVB that they would use their own money to shield the bank from losses on start-ups.

Shortly before Lily Robotics entered bankruptcy in 2017, SVB sold its loan to one of the company's VC backers for an undisclosed price. It is unclear whether such deals were common or whether this one reduced the losses on SVB's loan.

Regardless, no bank can afford to rely too heavily on the sympathy of customers; after all, it was a stampede of SVB's depositors that caused the bank to fail.

More tantalising is the possibility that SVB, while functioning as a bank, had found a way to share in the more lucrative financial returns of its VC clients. As a condition of its loan start-ups, SVB typically received warrants, allowing it to participate in increasing equity value. If a few clients became unicorn, those warrants could yield staggering profits.

In the aftermath of a \$42bn bank run that wiped out one-quarter of SVB's deposits, its unusual lending practices may seem like a harmless curiosity.

Yet a lesson of past crises is that such anomalies deserve study.

Low interest rates make it difficult for financial institutions to make money on safe but low-yielding assets.

At the same time, economic growth and placid markets can make some bets seem less risky than they really are.

In Silicon Valley, the trauma of the pandemic was tempered by a period of extraordinary economic optimism.

Long after SVB's gone, we may be reckoning with other consequences of that euphoria.

mark.vandevelde@ft.com

## The day in the markets

### What you need to know

- Wall Street and European bank stocks buoyed by earnings results
- Stoxx Europe 600 hits year high as financial shares rally
- Dollar gains but US Treasuries face selling pressure

### European stocks rise after US banks earnings boost

Stoxx Europe 600 index



Wall Street and European bank stocks rallied yesterday following a spate of better than expected corporate earnings from some of the country's biggest lenders.

JPMorgan Chase beat estimates with first-quarter profit rising 52 per cent. Wells Fargo and Citigroup also reported higher than expected corporate earnings.

JPMorgan led gainers as the KBW Nasdaq bank index added 0.9 per cent. However, the blue-chip S&P 500 was down 0.5 per cent and the tech-heavy Nasdaq Composite was down 0.6 per cent.

The results indicated that the turmoil in the US banking sector last month had little immediate impact on the profitability of the biggest companies.

That helped lift the Stoxx Europe 600 index 3.3 per cent higher with Deutsche Bank gaining 4.6 per cent and Société Générale up 3.6 per cent.

The region-wide Stoxx Europe 600 gained 0.6 per cent to reach its highest level in a year. Frankfurt's Xetra Dax rose 0.5 per cent and the CAC 40 in Paris was also up 0.5 per cent to a fresh record high.

Investors had drawn encouragement from US data on Thursday that indicated the economy was slowing in response to the US Federal Reserve's aggressive series of interest rate rises to curb inflation.

The producer price index showed that demand unexpectedly fell 0.5 per cent in March. New jobless claims figures revealed that the number of people filing for unemployment benefits climbed more than expected to 239,000.

The US Dollar index, which measures the currency against six peers, retraced early losses to trade 0.6 per cent higher. The euro fell 0.6 per cent and sterling fell 0.8 per cent against the dollar.

Deutsche Bank analysts said the latest data painted a conflicting picture. "On the one hand, an array of leading indicators are pointing to a US recession over the coming year . . . But if you wanted to take the opposite view, you could point to unemployment around its lowest in decades . . . along with growing signs that inflation is softening and the Fed is nearing a pause in their rate hikes."

The two-year Treasury yields rose 10 basis points to 4.31 per cent and the yield on benchmark 10-year debt was up 7bp to 3.52 per cent.

In Asia, the CSI 300 of Shanghai and Shenzhen stocks firmed 0.6 per cent and Hong Kong's Hang Seng rose 0.5 per cent. Gold fell 2.1 per cent to \$1,996.68 a troy ounce after hitting its highest price since March 2022 on Thursday. **Martha Muir**

## Markets update

	US	Eurozone	Japan	UK	China	Brazil
<b>Stocks</b>	S&P 500	Eurofirst 300	Nikkei 225	FTSE100	Shanghai Comp	Bovespa
Level	4129.60	1847.43	28493.47	7871.91	3338.15	106387.93
% change on day	-0.40	0.53	1.20	0.36	0.60	-0.07
<b>Commodities</b>	\$ Index (DXY)	\$ per €	Yen per \$	\$ per £	Rmb per \$	Real per \$
Level	100.931	1.101	133.640	1.244	6.849	4.957
% change on day	-0.079	-0.362	0.789	-0.560	-0.335	1.044
<b>Govt. bonds</b>	10-year Treasury	10-year Bund	10-year JGB	10-year Gilt	10-year bond	10-year bond
Yield	3.523	2.437	0.456	3.786	2.850	11.949
50bps point change on day	10.560	6.700	-0.430	8.300	0.200	4.300
<b>World Index</b>	COMFIDE All-World	Oil - Brent	Oil - WTI	Gold	Silver	Metals (LME)
Level	431.03	86.46	82.67	2048.45	25.62	4020.50
% change on day	-0.28	0.43	0.62	2.00	1.89	1.65

Yield rates are quoted from Bloomberg - 1000-DXY: S&P, Bovespa, All-World, CR - 100-DXY: Gilt, Silver - London pm fix. Bond data supplied by iBondsPro.

## Main equity markets



## Biggest movers

	US	Eurozone	UK
<b>Up</b>	JPMorgan Chase & Co 7.60	Caixa Galicia 5.78	Standard Chartered 4.43
VF 3.71	Commerzbank 5.04	Persimmon 3.37	
Citigroup 3.55	Ap. Moller - Maersk B 4.53	Barclays 3.23	
Bank of America 3.13	Deutsche Bank 4.31	Hsbc Holdings 3.00	
Blackrock 2.76	Santander 3.76	Kingfisher 2.64	
<b>Down</b>	Catalent -27.22	Kpn -3.65	Hiscox Ltd -2.95
Boeing -6.09	Alstom -3.05	Admiral -2.63	
Servotecn -5.04	Philips -3.03	Beazley -2.26	
Dish Network -4.92	Edp -2.98	National Grid -2.23	
Newmont -4.57	Indesa -2.57	Melrose Industries -1.94	

Prices taken at 1700 GMT. Based on the constituents of the FTSE Eurofirst 300 Composite. All data provided by Morningstar unless otherwise noted.

## Wall Street

At the top of the S&P 500 index was major lender JPMorgan Chase, which posted record first-quarter revenue of \$38.3bn, comfortably topping the \$36.2bn markets had expected.

JPMorgan's earnings also blew past expectations with net income rising 52 per cent from a year ago to \$12.6bn, above the \$10bn Wall Street had forecast, aided by "healthy" spending at its consumer business, said chair Jamie Dimon.

Fellow Wall Street bank Citigroup also rallied after reporting quarterly earnings of \$1.86 per share, which was 11 per cent ahead of expectations, boosted by strong consumer spending.

BlackRock joined JPMorgan at the head of the blue-chip benchmark with the world's largest money manager reporting earnings of \$795 per share in the first quarter, beating the consensus estimate by 17 cents per share.

BlackRock, which makes the majority of its money from investment-related fees, attracted net inflows of \$10bn during the quarter, markedly higher than the \$86bn from a year earlier.

At the bottom of the S&P 500 was contract drug manufacturer Catalent, which warned that "productivity issues and higher than expected costs" at three manufacturing facilities would affect upcoming financial results. Ray Douglas

## Europe

Amsterdam-based TomTom rallied after reporting a first-quarter operating profit of €2.6m, up from a loss of €19.8m a year earlier and way better than the €7mm loss analysts had expected.

The maker of navigation equipment said the performance owed much to a fall in operating expenses, aided by a rejig of its maps business.

Record quarterly earnings sent Sweden's AAK rallying with the food processing group posting a 4.3 per cent year-on-year rise in operating profit to SKr952mm (\$92.6m) in the first quarter.

AAK noted an "improved ability to compensate for inflationary effects". France's Alstom fell following an announcement that Laurent Martinez, its chief financial officer, would be leaving the train company to become CFO at telecoms group Orange.

The move triggered a downgrade by Deutsche Bank, which lowered its rating for Alstom from "buy" to "hold" as Martinez's departure brought "additional uncertainties", said analysts.

The broker questioned whether Alstom's current financial targets would remain and was keeping a close eye on its "complex, multi-year" integration of Bombardier Transportation, a rail unit bought from Canada's Bombardier in 2021. Ray Douglas

## London

Soaring to the top of the FTSE 250 index was Dechra, the veterinary pharmaceuticals group, which confirmed it was having takeover talks with Swedish private equity firm EQT.

A possible all-cash offer of £40.70 per share was about 50 per cent higher than Dechra's most recent closing price.

Broker Liberum said the chance of discussions leading to a bid were "high" given the synergies that the deal presented and the board's signalling that it would recommend the offer.

Joining Dechra at the head of the mid-cap index was classic boot brand Martens, which rallied despite trimming its annual profit forecast.

Piral Dardhana's takeaways from the group's conference call were broadly positive with the RBC Europe analyst arguing that "revenue momentum" appeared to have "accelerated for Emea and Asia-Pacific . . . and not worsened in the US".

Casual clothes group Superdry dived after withdrawing its profit guidance owing to the "challenging trading environment", it said.

Superdry said "factors outside the company's control", such as the cost of living crisis and poor weather, meant retail sales in February and March had "not met our expectations". Ray Douglas

## FT NON-EXECUTIVE DIRECTOR DIPLOMA

### Invest in Your NED Career

The Financial Times Non-Executive Director Diploma is a fully-accredited postgraduate qualification studied over six months that will improve your board effectiveness and contribution.

Available in London and Hong Kong, the course covers the whole range of skills and knowledge needed for any non-executive role and is delivered through a combination of face-to-face and online learning.

The Diploma is right for you if:

- You are thinking of making a move into your first non-executive director role, particularly if you do not already have board experience
- You have been newly appointed to a board
- You are already a non-executive but want to refresh your knowledge and skills
- You have experience of working at a senior level reporting into the board, or as an advisor to the board and are looking to progress in your career

Find out more at [bdp.ft.com](http://bdp.ft.com)  
+44 (0) 207 873 4909 | +852 2905 5506

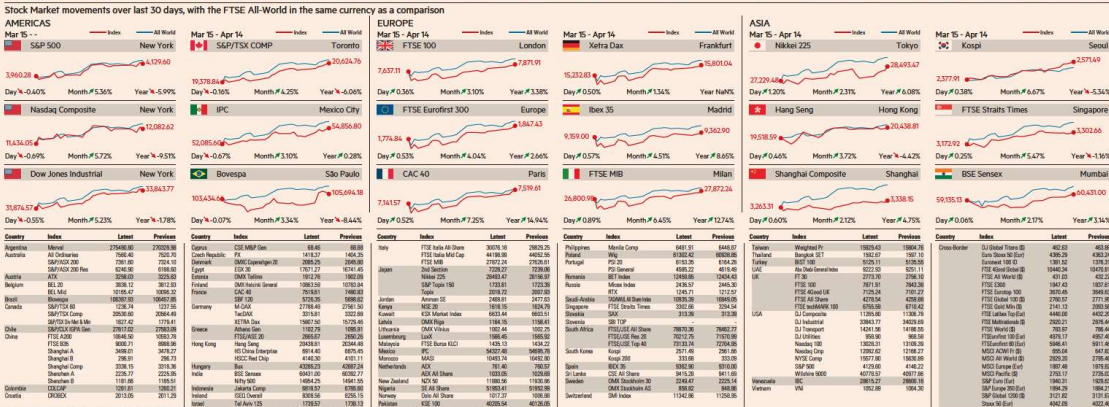


MARKET DATA

WORLD MARKETS AT A GLANCE



FT.COM/MARKETSDATA



STOCK MARKET: BIGGEST MOVERS

Table listing top stock market movers with columns for stock name, price, change, and sector. Includes entries like Johnson & Johnson, Apple, Microsoft, etc.

CURRENCIES

Table showing currency exchange rates for major pairs like Dollar/Euro, Dollar/GBP, Dollar/JPY, etc., with columns for currency, rate, and change.

FTSE ACTUARIOS SHARE INDICES

Table listing FTSE Actuarial Share Indices for various countries and regions, including UK, US, and Europe.

FTSE 100 INDEX

Table showing the FTSE 100 Index performance, including daily closing prices, volume, and sector breakdowns.

FTSE GLOBAL EQUITY INDEXES

Table listing FTSE Global Equity Indices for various regions like Americas, Europe, Asia, and Emerging Markets.

UK STOCK MARKET TRADING DATA

Table providing UK stock market trading data, including volume, value, and price changes for major indices and sectors.

UK COMPANY RESULTS

Table listing UK company financial results, including revenue, profit, and EPS for various firms.

UK RECENT EQUITY ISSUES

Table listing recent equity issues in the UK, including company names, issue sizes, and dates.



MARKET DATA

FT500: THE WORLD'S LARGEST COMPANIES

Table with columns: Stock, Price, Div, Yield, P/E, Mkt Cap. Lists major global companies like Apple, Microsoft, Amazon, etc.

FT500: THE WORLD'S LARGEST COMPANIES

Table with columns: Stock, Price, Div, Yield, P/E, Mkt Cap. Lists major global companies like Apple, Microsoft, Amazon, etc.

FT500: THE WORLD'S LARGEST COMPANIES

Table with columns: Stock, Price, Div, Yield, P/E, Mkt Cap. Lists major global companies like Apple, Microsoft, Amazon, etc.

FT500: THE WORLD'S LARGEST COMPANIES

Table with columns: Stock, Price, Div, Yield, P/E, Mkt Cap. Lists major global companies like Apple, Microsoft, Amazon, etc.

FT500: THE WORLD'S LARGEST COMPANIES

Table with columns: Stock, Price, Div, Yield, P/E, Mkt Cap. Lists major global companies like Apple, Microsoft, Amazon, etc.

FT500: TOP 30

Table with columns: Stock, Price, Div, Yield, P/E, Mkt Cap. Lists top 30 companies.

FT500: BOTTOM 30

Table with columns: Stock, Price, Div, Yield, P/E, Mkt Cap. Lists bottom 30 companies.

BONDS: HIGH-YIELD & EMERGING MARKET

Table with columns: Bond, Coupon, Maturity, Yield, Spread. Lists high-yield and emerging market bonds.

BONDS: GLOBAL INVESTMENT GRADE

Table with columns: Bond, Coupon, Maturity, Yield, Spread. Lists global investment grade bonds.

BONDS: UK CASH MARKET

Table with columns: Bond, Coupon, Maturity, Yield, Spread. Lists UK cash market bonds.

INTEREST-RATES: OFFICIAL

Table with columns: Country, Rate, Change, Date. Lists official interest rates for various countries.

BOND INDICES

Table with columns: Index, Yield, Change, Date. Lists various bond indices.

INTEREST-RATES: MARKET

Table with columns: Instrument, Rate, Change, Date. Lists market interest rates.

BONDS: INDEX-LINKED

Table with columns: Bond, Yield, Change, Date. Lists index-linked bonds.

BONDS: TEN YEAR GOV SPREADS

Table with columns: Country, Spread, Change, Date. Lists ten-year government spreads.

COMMODITIES

Table with columns: Commodity, Price, Change, Date. Lists various commodities.

BONDS: INDEX-LINKED

Table with columns: Bond, Yield, Change, Date. Lists index-linked bonds.

BONDS: INDEX-LINKED

Table with columns: Bond, Yield, Change, Date. Lists index-linked bonds.

BONDS: INDEX-LINKED

Table with columns: Bond, Yield, Change, Date. Lists index-linked bonds.

BONDS: INDEX-LINKED

Table with columns: Bond, Yield, Change, Date. Lists index-linked bonds.

Information Data Pricing and Reference Data Ltd. an ICE Data Services company.

Morningstar logo and advertisement text: 'Equity Research from Morningstar' with a background image of a person's face.



FINANCIAL TIMES SHARE SERVICE

Main Market

Table with columns for Sector, Stock Name, Price, % Change, 52 Week High/Low, and Volume. Includes sub-sections like Aims, Chemicals, Construction Materials, and Electronics & Electrical Equipment.

AIM

Table with columns for Sector, Stock Name, Price, % Change, 52 Week High/Low, and Volume. Includes sub-sections like Aims, Chemicals, Construction Materials, and Electronics & Electrical Equipment.

Investment Companies

Table with columns for Sector, Stock Name, Price, % Change, 52 Week High/Low, and Volume. Includes sub-sections like Aims, Chemicals, Construction Materials, and Electronics & Electrical Equipment.

Data provided by Morningstar



www.morningstar.co.uk

FT Weekend

Start your weekend thinking

Read things differently with the weekend's clearest view on the world, plus uncover the new and noteworthy in art, culture, style and travel.

Pick up your copy this weekend or subscribe online at ft.com/subscribe

FT Weekend

Start your weekend thinking

Read things differently with the weekend's clearest view on the world, plus uncover the new and noteworthy in art, culture, style and travel.

Pick up your copy this weekend or subscribe online at ft.com/subscribe